pg 1

I

The Austrian Problem

THE popular conception of a Europe divided by the Iron Curtain makes no allowance for the position of Austria. On one side of the curtain are East Germany and the Soviet satellite States, with Berlin heroically maintaining its insularity and faith in the future. On the other side are the West European countries, including Yugoslavia, with Albania as a queer but harmless anomaly left isolated on the Adriatic by Tito's quarrel with Russia. Austria under Four-Power occupation, yet with a Federal Government of its own, does not fit into this over-simplified pattern. The Russian zone of Austria is not behind the Iron Curtain in the same sense as East Germany, but it cannot be included in Western Europe. 648

This aspect of the Austrian question is bound up with the conflict between Russia and the West. It is a post-War development and will become clear as the story of post-War Austria is told. The main problem presented by Austria in 1945 is more fundamental and can be understood only in the light of the country's history between the two World Wars.

When the Habsburg Empire disintegrated in the autumn of 1918, the bulk of its territory and population was taken over by the so-called Succession States. All that were left to form the new Austrian Republic were about seven million German-speaking Austrians and a group of provinces extending from Hungary to Switzerland without national or administrative cohesion. For some months it was doubtful if an Austria would survive at all. From the economic and political points of view there were strong reasons why it should not. 728 642

Economically the new State was an irrational fragment which would have the greatest difficulty in paying its way. In area it was little more than an eighth the size of the old Empire, 433

433 and in population less than a seventh. Yet it contained Vienna, with over two million inhabitants, a great Imperial city that had lost its *raison d'être*. The capital's top-heavy administrative system and large governing class were a burden to the young Republic. The country had lost to the Succession States its main sources of food supply and the coal vital to its industries. Four-fifths of its wheat and between two-thirds and three-quarters of its coal had to be imported. It was not surprising that in 1922 Austria had to appeal for financial aid from abroad and to accept the supervision of a League of Nations Commissioner.

648 Politically the seven million German-speaking Austrians did not want to form an independent State. The Austro-Hungarian Empire had collapsed owing to the desire of its various peoples for self-government. In 1918 the idea of self-determination was in the air, and it was natural that the German-Austrians, who owed to it the loss of their dominant position in the Habsburg Empire, should wish to make the best of the situation by applying the principle to themselves. In Germany the military Imperialists had fallen from power. The great majority of Austrians, therefore, who disliked Prussian arrogance but felt themselves to be Germans, were in favour of an *Anschluss*, or union with Germany, whether they belonged to the Right Wing or to the Left. Even Dr. Karl Renner, the first Chancellor of the Austrian Republic, who, as a Socialist, had advocated a free federation of Danubian peoples under the Habsburgs, was converted to the *Anschluss* idea by the force of events.

The first name given to the remnant of the Habsburg Empire was not 'Austria' but 'German-Austria'. A Provisional National Assembly, which met in Vienna during November 1918, approved a constitutional law stating that German-Austria was 'an essential part of the German Republic'. This decision was confirmed by a Constituent National Assembly the following March. Otto Bauer, who was in charge of foreign affairs, drew up a treaty with the German Foreign Minister, laying down the manner in which German-Austria

665 668 been suspended by the Dollfuss Government and the country was on the verge of civil war. The Government's harsh and ill-considered decision to turn artillery on to the workers' dwellings may have cut short the conflict and suffering, but it was a final betrayal of democracy that no considerations of expediency can excuse.

721 In spite of the serious internal difficulties, it was in the end to external force that the Austrian Republic succumbed. On the 11th of March 1938 Hitler sent an ultimatum to Dr. Schuschnigg, the Chancellor. Within a few hours German troops had occupied the country and the *Anschluss* was a fact. The Austrian political parties have accused each other of preparing the way for this tragedy, but there were deep-lying causes for the growth of National Socialism and Fascism that were beyond their power to prevent. In the diplomatic circumstances of the time, even had Austria been a model democracy, it would have had no more chance of withstanding Hitler than had the courage, patriotism, and democratic example of the Czechs. As the only German country outside the Reich, Austria was the first object of Hitler's ambition. The opening page of *Mein Kampf* contains the sentence: 'German-Austria must return to the great German Mother Country'.

186 648 In fact, by 1938 the attitude of Austrians towards union with Germany had changed considerably. Inside Austria nearly twenty years of enforced independence had inevitably left their mark: the people were acquiring a sense of pride in their achievement and hope for the future. Recent developments in Germany also had had a decisive effect.

433 Economically Austria had made important progress. In 1918 its position seemed hopeless. But the Austrian Government and people gradually accustomed themselves to the idea that their fate was in their own hands. By 1937 the country was producing three-quarters of its food. Valuable oil-fields had been discovered at Zistersdorf, north-east of Vienna, and oil production had risen from 73 tons in 1932 to 32,849 tons in 1938. The tourist industry had developed rapidly and covered over 80 per cent of the country's trade deficit. When the

• 433 *Anschluss* took place, Austria already had a good chance of becoming a viable State.

657 Politically the main achievement had been in the field of
social legislation. Nowhere in Europe did the Socialist ideal
find more impressive realization than in the legislative programme
initiated by Ferdinand Hanusch, the Austrian Secretary
of Social Administration between 1918 and 1920, and in
367 the housing schemes carried out between the Wars by the
Vienna municipality under Social Democratic control. These
improvements gave the young Republic something to be
proud of, something, moreover, which was associated with the
difficult present rather than with the glorious past, and which
648 directed attention to the possibilities of the future. Another
political event of importance was the appeal for financial help
made to the Allies by the Christian Socialist Chancellor, Monsignor
Seipel, which led to the appointment of the League of
Nations Commissioner. He was accused of being a traitor by
his opponents, but his action established an important precedent
in international collaboration. It showed that it was possible to
combine patriotism with the acceptance of international control,
an innovation of great significance for a small State like
Austria.

517 In culture and sport the period also brought great success. The triumphs of the Austrian football team, the Vienna State Opera, and the Salzburg Festival stirred the pride and enthusiasm of the harassed Austrian people.

186 Anton Wildgans' *Rede über Österreich*, which was written in 1929, reflected the development of Austrian patriotism and Austria's sense of identity as a State. This great speech was intended for a foreign audience. But it was also a noble expression of patriotic faith. Its enthusiastic reception in Austria was a clear indication that it summed up ideas that were germinating in many Austrian minds.

648 Austria's growing self-consciousness and sense of independence were stimulated by Hitler's rise to power. Austrian Socialists had been in favour of union with a Germany in which Socialism and democracy were strong, but they had no

V

The Economic Legacy of the Anschluss and the War

AUSTRIA lost its economic identity as well as its political 433 independence at the time of the *Anschluss*. As the Austrian provinces and Vienna itself were subordinated 727 to the German Government in Berlin, so Austrian industry, agriculture, and forestry were absorbed into the German economy.

In war and defeat, therefore, Austrian economic life suffered with the rest of the Nazi Empire. The damage caused by actual hostilities was relatively less in Austria than in Germany. The campaigns on her actual territory were brief, and serious air attacks were limited to the main centres of industry and communications. On the other hand, Austria was a more sensitive and vulnerable economic unit. In 1938 she had only just begun to pay her way after twenty years of effort, while Germany was one of the most powerful industrial countries. The injury inflicted on the Austrian economy by the War in all its aspects was crippling and came near to being fatal.

In spite of Austria's relative freedom from air-raids, the 727 destruction in the target areas was severe. The loss in buildings was estimated after the War at about four billion[1] schillings with the schilling at forty to the pound. The industrial city of Linz lost nearly a third of its 44,000 dwellings. Wiener Neustadt, home of an important Messerschmidt aircraft factory and other war industries, was the worst damaged of Austrian cities. It was hit by more than 50,000 bombs. Only eighteen of its houses were left intact, and its population was reduced from 45,000 in 1944 to 860 in April 1945.

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[1] The term 'billion' is used throughout in the American sense of a thousand million.

[p. 69]

Government was obliged to spend approximately 150 million schillings a year on maintaining them. 000

The Austrian economy under the Nazis had been geared to make a maximum contribution to the war effort. When the War ended, the whole structure collapsed. Factories that had been converted to war production at great expense needed even more spent on them in many cases to fit them for peacetime production. As this situation was common throughout the world and industrial equipment and machine-tools were in very short supply, the process of reconversion could only be carried out slowly and at a high cost. Those industries that served a purely peaceful purpose had been very largely neglected during the War. Much of their equipment and machinery was worn-out and old-fashioned, and the process of replacement involved the same difficulties as the reconversion of war industries. 433 727

The railways provide an example of the kind of problem with which Austria was faced. Over a third of the total track mileage was out of action owing to war damage, and nearly 400 bridges had been destroyed. At the same time, the greater part of the locomotives and rolling-stock that were still available were due by pre-War standards for renewal. [496]

A good indication of the War's effect on the Austrian economy is given by the estimated figures for 1946. When the year opened, the country had already had eight months in which to recover from actual hostilities, so the figures represented an injury of more than passing significance that could not be attributed solely to the results of the fighting or to the administrative breakdown that accompanied the German defeat. The total gross national production in 1946 was approximately 45 per cent of the 1937 figure. Agriculture reached only about 50 per cent and industry only 43 per cent of the amounts produced in 1937, while foreign trade was only about 8 per cent of the 1937 total. Of this modest aggregate production it has been conservatively estimated that some 30 per cent was required to meet the needs of the occupying Powers.

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433

Most of the economic difficulties that have so far been mentioned were shared in the main by Austria and Germany. They were the common results of a common struggle, in which Austria as a whole was an unwilling participant. Yet there were other ways in which Austria suffered more severely than her culpable oppressor. Some were primarily the responsibility of the Russians; others, of the Germans themselves.

Germany has lost territory in the east to Russia and Poland, and the area that remains to her has been divided politically into the Eastern and Western Zones. But the economic, as opposed to the political, effects of the post-War Russian occupation have been less serious in Germany than in Austria. The Russian zone of Austria is of more importance to the country as a whole than is the Russian zone of Germany to the whole German economy. Thanks to the great industrial resources of the Ruhr Valley, Western Germany is again a powerful economic force, while Austria, owing to Russian exploitation, is still dependent on American aid. Without the industry and mineral wealth of the Russian zone Austria cannot be a viable State.

Russia's control of Lower Austria, Burgenland, and a substantial part of Vienna gives her a dominant influence on the Austrian economy. The area includes the best grain-lands and vineyards in the country, the great oil-fields of the Zistersdorf region, and a high proportion of Austria's industry. In 1934, 65 per cent of those employed in industry and trade were to be found in the three provinces of Lower Austria, Burgenland, and Vienna. Even in 1948, when many industrial concerns had been transferred to the West, the figure was still about 50 per cent.

It is not suggested that the Russians have exploited the whole industry and agriculture of the area for their own ends. As an occupying Power, however, Russia has been able to take advantage in various ways of the economic resources available. In the early days a great deal was removed in the form of loot and war booty, and since then systematic confiscation on a vast scale has been carried out on the pretext that whatever was

taken was a 'German asset', and therefore a legitimate form of 727
reparation. The damage inflicted on the Austrian economy 433
has been decisive in preventing its full recovery.

Russia's subjugation of East and South-east Europe has also
been a severe blow to Austrian commerce. Not only has 727
Austrian capital behind the Iron Curtain been confiscated; 439
Austria also has very largely been cut off from her main market area. The Habsburg Empire in its economic aspect represented the material interdependence of the peoples of the Danubian basin. It was natural, therefore, that after the Empire had collapsed Austria should maintain her economic ties with the Succession States. In 1937, 27 per cent of Austria's exports went to the five eastern countries behind the Iron Curtain that are now known as the 'People's Democracies', and 31·5 per cent of her imports came from them. The corresponding figures in the summer of 1952 were 12·3 and 9·9 per cent. The decline is not due to any disinclination on Austria's part to maintain normal trading relations: in that year she signed trade treaties with both Poland and Hungary. Apart from foreign aid, Austria is dependent on her exports for the purchasing power with which to buy food and the equipment necessary for her recovery. Any serious contraction of her foreign markets involves a corresponding setback in her economic revival.

Austria's problems were further increased by her geographical [489]
position. After the War, Russia controlled the Danube and seized the steamers and barges belonging to the Danube Shipping Company. With no immediate access to the sea, therefore, Austria was entirely dependent on land communications and the availability of transport for her vital coal supplies and a large proportion of her food. She had less flexibility than better-placed countries like Germany in her search for new trading partners, when her industries gradually revived and she found her old markets closed to her. These difficulties were increased by the acute transportation crisis in Europe after the War, due to the shortage of locomotives, railway trucks, and road vehicles.

727 ●433 Other injuries from which Austria suffered were the result of deliberate German policy. So long as the Nazi occupation lasted, Austria was treated as an appendage to the German economy, and her interests were subordinated to those of the Reich. She was no longer considered as an economic entity, and no attempt was made to maintain the balance of her economic life.

[133] [311] About 57 per cent of Austria's total area is over 1,000 metres (3,281 feet) high, and 37 per cent is woodland. It is therefore hardly surprising that only 21 per cent is cultivated and that before the War, in spite of strenuous efforts, the country could produce only three-quarters of its total food requirements. At the same time it was essential that it should be as self-supporting as possible. To import even a quarter of its provisions imposed a severe strain on the balance of trade. Yet during the Nazi period efforts to increase Austrian agricultural production were relaxed. The self-sufficiency of a mere group of provinces was a matter of no significance to Hitler, and he preferred to depend for his food supplies on the conquered and dependent lands of Central and Eastern Europe. The *Ostmark* could be better used for other purposes.

Austrian farms therefore lost man-power to the army. Their livestock was reduced. Equipment grew old and could not be replaced. Owing to lack of fertilizer the quality of the soil deteriorated. In 1945 domestic food production reached less than half, and in 1946, when conditions were much less disturbed, only about two-thirds of the pre-War level.

[313] Austria's forests are one of her most valuable natural resources. Her timber industry, together with the paper and cellulose industries dependent on it, accounts for about 9 per cent of her national income and for a substantial proportion of her exports. During the War the forests were ruthlessly exploited, and it has been estimated that at least 10 million cubic metres of timber were felled in excess of the economic figure, the fellings mainly taking place in the most accessible areas. This meant that years of strict control would be necessary to restore the timber industry to a healthy condition. At a time when the country was struggling to rebuild its economy, one of its main sources of wealth was in a state of convalescence.

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Highly skilled workers are one of Austria's chief economic 727
assets, and between the Wars consumer-goods and luxury 433 ●
industries played an important part in her economic life. This [464]
side of her economy declined seriously during the German
occupation. As part of the deliberate plan to turn the country into an arsenal, workers were diverted from secondary industries and agriculture to the large new war-production centres that were established.

The great Hermann Goering Iron and Steel Works were set 727
up at Linz, with their own coking plant. Sixty miles away at 327
Ranshofen near the River Inn a big aluminium plant was 328
built. There were several reasons for these developments. The 438
fundamental idea was to provide a reserve of vital war industries in a district less vulnerable to enemy attack. Just as the Russians transferred some of their main war industries to Central Asia, so Hitler wanted to have some of his production centres farther away from Allied bomber bases. Secondly, there were certain economic considerations in favour of the two sites. Both were on important waterways. Linz was some sixty miles from the iron ore of the Erzberg, or Iron Mountain, in Styria and not far away from the low-grade ore of Bavaria. Ranshofen was reasonably close to the Hungarian bauxite deposits and conveniently situated in relation to the Third Reich's electricity network, cheap current being the main consideration in the siting of an aluminium works. Further, there were reasons of sentiment and prestige for the choice of location. Hitler was born in Braunau, a few miles from Ranshofen, and went to school in Linz. It seemed fitting that the scenes of the Führer's youth should become centres of war production.

From the purely Austrian point of view, however, such developments were not so satisfactory. Hardly one of the considerations that influenced German leaders would have carried weight with an independent Austria. The strategic and sentimental arguments were both irrelevant. Neither Bavaria nor

727 315 In the same way, against the ruthless and damaging methods by which Austrian oil-fields were developed can be set the amount of capital expended and the value of the results achieved. A great new source of national wealth was opened up with exceptional speed. The exploitation of this wealth by the Russians is the largest debit item in the Austrian–Soviet account. But it was only an indirect, and by no means inevitable result of German action and the War.

727 433 In the basic industries also there were certain considerations that offset the disadvantages and dangers of the change of emphasis in Austrian industry that the new developments involved. Had the Linz and Ranshofen works[1] been liabilities alone, they could have been dismantled and abandoned after the War. But large sums of money had been invested in them, which Austria on its own would have had the greatest difficulty in raising. The decision to keep them both going, so far as the supplies of raw materials, coal, and electric current allowed, reflected Austrian realization of their value.

[387] One major item in the economic legacy of the *Anschluss* period was an unqualified asset of great worth. A large nitrogen works suitable for the manufacture of artificial fertilizer was erected during the War at Linz. The site was chosen because the main substance required in the manufacturing process was coal-gas, and surplus gas was available in sufficient quantity from the Hermann Goering coking-plant. By November 1950 the works had produced a million tons of ammonium nitrate since the end of the War. Austrian agriculture had benefited considerably, and during the four years from 1947 to 1950 the export of artificial fertilizer had earned more than $25 million worth of foreign exchange. If foreign markets contract, experts consider that the whole production can be used with advantage in Austria. Food production would increase substantially as a result, and the scale of essential imports would be reduced.

● 433 Three times in a generation Austria has had to adapt her economy to radical territorial and political change. In 1918,

[1] [Cf. category 116, pp. 75-76 — Analyst]

as a political and economic fragment, industrially top-heavy, 433
and cut off from essential supplies, she was condemned to an uphill struggle for self-sufficiency. In 1938, just when she had achieved a measure of success, she had to submit to incorporation in an empire, the whole economy of which was moulded ruthlessly to the needs of war, without regard for the traditions or individual claims of its component parts. In 1945, as a small 185
unit, now conscious and even proud of her identity, she was set the task of rebuilding her independent existence and freeing herself from the traces of economic subservience.

To accomplish this third task Austria needed an economic plan that was based on the requirements of the future and the existing facts. Clearly the Nazi neglect of agriculture and the damage done to forests must be put right. A hydro-electric power scheme based on the country's own long-term needs was required. And a programme for industry had to be formulated which took account of Austrian tradition and craftsmanship and any features of the Nazi legacy that were of permanent value. The decision must be made as to what modifications were required in the heavy installations of the war economy in order that they might occupy a permanently valuable place in an economic structure adapted to the needs of peace.

It was difficult to form a correct judgement on this last point 000
in the exceptional circumstances of the post-War years. Not only were world markets strongly influenced by demands for reconstruction programmes. On the one hand, American generosity made available in Austria much more investment capital than would normally have been the case. On the other hand, Russian confiscation deprived the country of many industrial products and one of its main natural resources. It was obviously wise for the Austrian Government to aim at independence of American support. Yet such an objective was very difficult to attain, so long as the oil-fields and many industrial installations remained under Russian control, and no one knew how long the control was to continue. This unknown factor was a serious obstacle to the formation of any

prohibitively expensive. The pathetic sight was common at the time of an old woman trudging back from a long tramp into the Vienna woods with sticks under her arm and a rucksack full of twigs on her back. The load would at most provide a little heat for a few hours, and the extremity of the need was proved by the lengths to which people would go to produce such small results. 511

Vienna is a cold city in winter. There is no doubt that the combined effect of unheated houses and inadequate food was responsible for the death of many old and ailing people. It was also partly responsible for the very high suicide rate. In 1946 there were 933 suicides or attempted suicides in Vienna alone. [165]

The figures given regarding the food supply have referred to food coming from official sources. In Austria after the War there was an extensive black market in food, fuel, and a large number of luxuries. It was the time now often described by Austrians as the period of 'The Third Man', after the well-known film with its unflattering portrayal of Viennese conditions. The rationing system was unreliable as well as inadequate. People were justifiably sceptical as to whether they would actually receive the quotas that had been officially announced. In these circumstances it was understandable that they should turn to the black market as an alternative source. 437 433

In August 1945, when the shortage was at its worst, black-market food prices in Vienna were about 264 times as high as the official rates. The exorbitant prices reflect the intensity of the need. And there is no doubt that there were many who paid them. Otherwise the health of the people would have suffered much more than it did. There were very few rich. But the majority of the working population had been able to save during the War, when most articles were scarce. Many members of the impoverished aristocracy and middle class parted with their valuables to avoid starvation.

There was a considerable difference between the black market in Austria and that in England. In England rations were

437 sufficient, the black market was in luxuries, and the people, on the whole, were law-abiding. The problem therefore was
433 primarily one for the police. In Austria rations were insufficient, the black market was in necessities as well as luxuries, and the consciences of the people were attuned to God and reason rather than to the law. The problem was thus rather a matter of economics, and in any case the Austrian police force was inexperienced and under strength.

437 The existence of the black market and the widespread use
that was made of it were obstacles to the improvement of the
435 food situation as a whole. The fact that foodstuffs were being sold at such extravagantly different prices made the farmers reluctant to increase their official deliveries. The black-market rates were excessive, but the official rates were beneath world levels and unfairly low for the producer. In spite of the efforts of the authorities, which included the threat of imprisonment, the farmers did little to help. Some of them dealt on the black market, and others found it more profitable to feed grain to their animals than sell it at the official price. During the difficult spring of 1946, the meat deliveries from the provinces to Vienna fell 90 to 100 per cent short of the allocations.

If the attitude of the farmers was neither helpful nor patriotic, it was the ineffectiveness of the whole system that was chiefly to blame. In these circumstances the Austrian Government's own measures to deal with the food problem were slow to show results.

433 There were two further reasons why the shortage persisted.
439 Additional food supplies were required from abroad. But Austria's traditional sources of supply had been Hungary, Poland, and Yugoslavia, and immediately after the War these countries were not in a position to export foodstuffs. Hungary and Poland later fell increasingly under Russian economic influence. Secondly, Austria had not the resources with which to pay for imports. In terms of exports grain now cost nearly twice as much as before the War, and such foreign exchange as was earned was required to buy raw materials and equipment for industry. A vicious circle was in operation: exports

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

were a pre-condition for the purchase of food from abroad, 433
and undernourishment stood in the way of industrial recovery. 439

The food problem remained serious for at least three years. 433
In 1947 it was often found impossible to honour the inadequate 146
basic ration scales of 1,500 to 1,600 calories, and medical inspections established that nearly 50 per cent of Viennese school children were under-nourished. Until 1948, when Austria had its first good post-War harvest, the population as a whole remained noticeably under-fed. By then most people's savings had already been spent and their mental and physical powers of resistance had been seriously weakened.

In spite of this melancholy story, great efforts were made to deal with the situation. Had this not been the case, the prolonged deprivation and distress of the Austrian people would have ended inevitably in political disaster.

In the autumn of 1945 it was decided to invite the United 648
Nations Relief and Rehabilitation Administration to organize 657
a supply programme for Austria. The way had been prepared in August, when the UNRRA Council had decided that as Austria was a liberated country there was nothing to prevent relief and rehabilitation operations being undertaken there, provided the occupying Powers approved. At the time, however, the necessary funds were not available. In November the immediate initiation of an UNRRA programme was urged, particularly by the United Kingdom, and before the end of the month an UNRRA Working Party had arrived in Vienna to obtain preliminary information regarding requirements. In December UNRRA headquarters, following a request from the Allied Council, authorized negotiations for an agreement with the Austrian Government, subject to the Council's approval. Brigadier R. H. R. Parminter, who had been serving since September as chief of the UNRRA Displaced Persons Operations in Austria, took over the duties of Chief of Mission on the 1st of January 1946 and conducted the negotiations. An UNRRA Bureau was set up in the Austrian Federal Chancellery early in the New Year to co-ordinate the transport, administration, and distribution of UNRRA supplies. On the

648 5th of April a formal agreement covering the relief programme
657 was signed by Brigadier Parminter and the Austrian Minister
for Foreign Affairs.

Although it had originally been hoped that UNRRA would be in a position to start operations on the 1st of March, this estimate proved too optimistic. It was finally decided that the organization should assume its responsibilities by three stages in April, May, and June, the beginning of June being the date on which it should be responsible for the actual delivery of supplies. To make this programme possible the Chief of Mission obtained the promise of each of the four occupying Powers to do its best to make available one month's food supply for its own zone from stocks already in the country. Even in June UNRRA had to borrow supplies from the American and Soviet Elements.

Allied help, which had first been given in the summer of 1945, was thus continued in order to tide Austria over the transition period. Throughout the whole winter and spring the country was dependent on the Allies for food and other essential supplies. At the end of 1945 the Russians agreed to the export of food from their zone into Western Austria. Coal was brought in from Germany. Raw materials, vehicles, clothes, and medical equipment were provided. Military stores belonging to the German army were handed over to the Austrian Government.

The UNRRA administration in Austria lasted from the spring of 1946 until the end of June 1947. Its main work was the supply and distribution of food. From June 1946 until October, when the Austrian harvest became available, 80 per cent of the rations of the non-agricultural population were provided or paid for by UNRRA, and UNRRA supplies formed a substantial part of the rations so long as the administration lasted. The total value of the food supplied amounted to $81,206,600, in addition to $20 million that were paid to the Allied military authorities for food provided by them.

648 The second largest item on the UNRRA budget was in
● 433 respect of agricultural supplies. After food itself, aid to increase

food production was Austria's most urgent need. When UNRRA started operations the prospects were not at all good. A large part of the seed reserves had been used up as food. Practically no artificial fertilizers were available. There was a lack of farm implements and tractors, all of which had been worked hard during the War. In the chief grain-growing areas of the Soviet zone there was a serious lack of livestock, most of the horses and cattle having been driven west by the Germans before the advancing Russian army. UNRRA spent $18,818,600 on agricultural supplies: about $4·5 million on machinery, $2 million on fertilizers, and more than $10 million on seeds. 648 433 [457]

After these two main items had been covered, comparatively little money remained over for other requirements. $6,492,400 were spent on industrial rehabilitation, mostly on raw materials, transport, and communications; $1,789,400 on clothing, and $1,706,200 on medical supplies.

UNRRA'S main effort in Austria was spent on short-term needs. The emphasis was on relief rather than rehabilitation, when the country's fundamental need was to build up its food production and purchasing power. Yet, given UNRRA's limited resources, the choice made was inevitable. The non-agricultural population was on the verge of starvation, and the health of the people as a whole was the essential condition of further progress towards recovery. The second stage in Austria's economic revival was a matter of long-term planning and was made possible by Marshall Aid. UNRRA laid the necessary foundations. 648

By the autumn of 1946 it became clear that UNRRA aid could not last much beyond the end of the year. In November the Federal Chancellor sent a letter to the Allied Council asking for foreign credits to help meet the deficit for 1947, which the Government estimated at $178 million. 648 457

The first country to respond to this request was Britain. Towards the end of 1946 the British Government agreed to make available £8,500,000 sterling for relief and reconstruction and a further £1,500,000 as a commercial credit for the

731 enough for grain production. The effects of the drought at this time were particularly unfortunate. Agriculture, from which much had been hoped, made no contribution whatever to [433] recovery. Food production in 1947 did not even reach the low level of 1946. Similarly, though hydro-electric current production was potentially over 60 per cent greater than in 1937, the total current produced in 1946 was only 24 per cent higher than in 1937. The following year it rose by about 2 per cent, but this was due entirely to the increased production of steam-driven power-stations. The amount of hydro-electric current actually fell.

316 433 There were several reasons for the coal shortage. Europe as a whole was short of coal. Austrian consumption had risen owing to the new iron and steel works at Linz, the development of steam-driven power-stations, and the needs of the occupying forces. The country had not the foreign exchange to pay for the coal needed from abroad, and the coal provided by the Western Allies from Germany was restricted by lack of transport.

433 For several weeks at the beginning of 1947 Austrian industry practically came to a standstill owing to what were euphemistically described as 'fuel and power holidays'. Finished-goods industries were completely closed down. The paper industry for a time virtually ceased to operate, and even some firms classed as essential had to suspend work. Such a stoppage was a major disaster for an economy struggling against odds to get on to its feet.

The 1947 production figures for some of Austria's key industries give an idea of the position of the Austrian economy when Marshall Aid began. It must, however, be remembered that the situation at the end of the year was better than at the beginning, and that in the case of most industries it continued to improve during the first three months of 1948. The position, therefore, was somewhat better in April 1948 than the figures indicate.

In each case, except for agricultural produce, the production by weight is given as a percentage of the 1937 figure:—

Pig-iron	56·15	Leather Goods	62·80
Raw Steel	54·89	Textiles:—	
Raw Aluminium	104·36	(*a*) Yarn	32·48
Magnesite	56·09	(*b*) Fabric	39·49
Electric Motors	21·54	Total Agricultural Produce (by value reckoned in terms of 1937 prices)	44·00[1]
Paper	48·76		
Cellulose	24·62		

Since 1918 foreign trade has been of vital importance to Austria. Before the War her foreign trade quota per head of population was one of the highest in Europe, and after the War it was of urgent importance that this state of affairs should be restored. The country was dependent on imports for most of its coal, for an essential part of its food supplies, for the raw materials for some of its key industries, and for much of the machinery and equipment necessary for its economic revival. Foreign exchange for the purchase of these imports had to be earned by Austria's own exports. This was clear to the country's political leaders as soon as the Government was formed, and every effort was made under the most difficult conditions to revive foreign trade with the least possible delay.

During 1946 a series of primitive barter agreements were signed with foreign countries, starting with immediate neighbours. On the 11th of February the Allied Council approved such agreements with Czechoslovakia and Italy. In June a contract was made between Austria and Poland by which 45,000 tons of Polish coal were to be exchanged for Austrian scythes and sickles. In November an important trade agreement came into force between Austria and France which provided for the exchange of specific goods and defined the arrangements for payment. As time went on, the barter type of arrangement gave way to more normal commercial agreements. By the end of 1947 Austria had signed treaties, in

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[1] Of all Austrian economic statistics those for agriculture are the least reliable As regards actual produce, in contrast to produce for which the farmers submitted returns, the above figure is probably too low.

185 433 Austria's heavy industries included, in addition to the Nazi legacy, the iron and steel works at Donawitz and the important Steyr–Daimler–Puch Company, which produced tractors, automobiles, motor-cycles, cycles, and ball-bearings. Some of the general considerations have already been mentioned that caused the planning authorities to look favourably on the Linz and Ranshofen enterprises.[1] Apart from the fact that Donawitz was not in the American zone and that the Steyr–Daimler–Puch Company was not nationalized, these considerations applied to all the heavy industries. Furthermore, for a number of reasons, each of the industries required the expenditure of a large amount of capital in order that its potentialities might be utilized fully for Austria's benefit.

In the first place, the concerns that had come into existence during the War were still incomplete when the War came to an end. Secondly, heavy industries were amongst the main targets for Allied air attacks, and some of them were very severely damaged. The nitrogen works at Linz were hit by about 800 bombs, and the main Steyr–Daimler–Puch plant at Steyr was almost completely destroyed, the total damage suffered by the Company's installations in the Steyr and Graz areas being estimated at over 220 million marks. After the War the destructive work of bombs was completed by systematic dismantling and confiscation. A large quantity of vital machine-tools was seized, and at Donawitz the steel-rolling plant was taken down and removed by the Russians, before the British occupied Styria. The third reason why capital expenditure was required was the need to transform and develop the various industries so as to comply with the future demands of the Austrian economy. The process of adaptation from war-time to peace-time production itself involved large-scale replacement of equipment. Even more important were the measures required within the heavy industries to restore the health and balance of the country's economic life.

If Austria was to maintain large plants for the production of iron, steel, and aluminium, it was at least desirable that the processing of these metals should be carried sufficiently far to

[1] [Cf. category 11b, pp. 102-103 —Analyst]

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

185 433 provide the country's metal-finishing industries with the sheets, rods, and other forms of metal that they required. In this way the producer-goods industries would contribute to the success of the consumer-goods industries, which would become independent of imports and would give Austria's traditional skill and craftsmanship the opportunities they required. The benefit to the whole economy is indicated by the fact that a given weight of finished aluminium products has on an average five times the value of a similar weight of raw aluminium. An Austrian member of Parliament pointed out in 1947 that no skill would be required in Austria to buy 10,000 wrought-iron candlesticks, but that it might well be difficult to get hold of a handful of nails. Such a state of affairs would in the long run be inexcusable in post-War Austria, and it was one of the duties of the E.R.P. planners to make it impossible.

185 327 The Hermann Goering iron and steel works in Linz, which became the Vereinigte Österreichische Eisen- und Stahlwerke (United Austrian Iron and Steel Works) and are usually known as VÖEST, were planned for a total output of a million tons of iron and steel a year. Before the War ended five of the six blast-furnaces were completed, while the annual production of steel only amounted to 250,000 tons. It was important that the output of steel and sheet-metal should be greatly increased. With this end in view a large outlay of capital was planned for the installation of steel production plant and rolling-mills at Linz and for replacing the rolling-mill at Donawitz. The ERP long-term programme aimed at decreasing the value of pig-iron exports from $9 million to $5 million within four years and at simultaneously increasing the value of rolled steel products from $25 million to $34 million. At Ranshofen finishing works were planned that were capable of handling 15,000 tons of aluminium a year, a figure based on the estimated home consumption.

185 387 The nitrogen works at Linz were to be developed and adapted so as to produce 40,000 tons of sulphuric acid a year and 100,000 tons of ammonium sulphate. This would give to their products greater variety and competitive power in world

figure. By the autumn of 1951 the small crafts, which employed nearly as many people as industry, had received only 14 million schillings from the counterpart fund, which was only 0·4 per cent of the total. 185 457

There was no branch of the Austrian economy in which the need for capital investment was greater than in fuel and power. Nor was there any branch to which the allocation of available funds would be the subject of less controversy. The Austrian Republic's shortage of coal, which had always been serious, was more acute than ever, owing to the development of the iron and steel industry. And Poland and Czechoslovakia, Austria's traditional suppliers, were now in the Russian orbit, and charged excessive prices for such coal as they were prepared to deliver. At the same time the country had vast potential sources of hydro-electric power, which only required capital for their development. It was most important that the development should take place both to economize consumption of coal and to satisfy the growing demands for electric current of Austrian industry and the Austrian people. 433

Austria's oil-fields were her main resources in mineral fuel, but, being under Russian control, they did not fall within the scope of the recovery programme. Her coal-mines, which produce 95 per cent lignite, could only satisfy between 25 and 30 per cent of her requirements in 1948 and 1949. As a result of forced production during the War and neglect of new development, the coal was difficult and expensive to work, and the output per miner was only three-quarters of the pre-War level, although the miners' own record had been excellent. [316]

The production of hydro-electric current increased steadily during the War, until in 1944 it had more than doubled. In 1945, owing to the serious disorganization that accompanied the end of hostilities, output fell off considerably, but between 1945 and 1948 it rose from 2·51 billion kilowatt-hours to 4·45 billion. The steam-driven power-plants, so important for the maintenance of winter supplies, had suffered severe damage during the War, especially at Linz, and were not back in full production by 1948. Meanwhile the growing importance of 433 377

433 electricity to the Austrian economy was shown by the fact that 377 domestic consumption per household had increased by 60 per cent between 1938 and 1947. In 1947, also, Austria exported nearly a quarter of its total current production and stood second amongst European countries as an exporter of electric power.

433 Substantial ERP funds were allocated to the coal-mines for – new development and modernization of equipment with the 457 object of increasing productivity. Aid was also given in the reconstruction of the damaged steam-driven electric power-stations, and in the building of new stations in the neighbourhood of the lignite fields. But the bulk of assistance in the sphere of fuel and power was naturally devoted to the development of hydro-electric resources.

165 Austria's total potential hydro-electric power production is estimated at not less than 30 million kilowatt-hours a year, 371 more than five times the present output. The possibilities 457 were already realized in some measure before the end of the nineteenth century, and development between the Wars was help up mainly owing to lack of domestic and foreign capital on the large scale required. The European Recovery Programme offered a great opportunity, which was not likely to recur, and at the Paris Conference which considered the Marshall offer in the summer of 1947 the Austrian delegation began at once to consider proposals for electric power development. By the following year a general plan had been drawn up that aimed at doubling production in the ten years starting with 1948.

ERP support was limited to four years, but provided for the generous allocation of counterpart funds both for the completion of plants under construction and for the initiation of new works. The programme covered projects in all of the six provinces under the Western Allies, but was confined to them. The great plant planned at Ybbs-Persenbeug on the Danube in Lower Austria, with a potential output of a billion kilowatt-hours a year, had to be left out, because it was in the Russian zone. Major projects in Western Austria included those on the Ill in the Vorarlberg, on the Drau in Carinthia, and on the Enns, the Inn, and the Danube in Upper Austria. The new

Allocations include (*contd.*):—	*Millions of Schillings*	
Industrial Investments	4,113·1	457
Electric Power	1,424·3	454
Coal-mining	226·0	
Other Mining	25·7	
Primary Iron and Steel Industry	827·7	
Non-ferrous Metals Industry	126·2	
Electrical Engineering	85·1	
Chemical Industry	174·4	
Secondary Iron and Metal Industry	215·1	
Textile Industry	214·0	
Woodworking Industry	121·3	
Paper Industry	533·2	
Leather and Leather Goods Industry	6·9	
Special Recovery Programme	1,467·0	
Agriculture	719·7	
Forestry	156·3	
Tourism	256·7	

In May 1948 an ERP Central Office was set up in Vienna and made responsible to the Minister for Foreign Affairs. In December 1949 the economist, Professor Wilhelm Taucher, who had been Minister of Trade before the War, was put in charge of it, and the office then became part of the Federal Chancellery. 647 457

It became clear to all those responsible for administering Marshall Aid in Austria that the fundamental need of the Austrian economy was to improve the efficiency of production, or increase 'productivity' in the specialized sense of the term. Only in this way could Austrian goods compete successfully in world markets. It was therefore decided in April 1950 to establish an Austrian Productivity Centre with the task of doing everything possible both by study and practical measures to increase productivity in all branches of the Austrian economy. Professor Taucher became president of the Centre. 647 433

The productivity of the whole Austrian economy after the War was lamentably low. In 1947 it was estimated to be

647 433 between 50 and 55 per cent less than the 1937 level. There were certain obvious reasons for this state of affairs: war damage, out-of-date equipment, lack of fuel and raw materials, and the influence of food shortage on the physical and mental efficiency of the workers. But as conditions improved it became evident that there were other factors contributing to the same result that could in some measure be mastered by the education and endeavour of the Austrian people themselves. Years of rationing and controls had weakened the competitive sense in Austrian industry. The severity of the post-War crisis, uncertainty as to the future, combined with the occupation and the arrival of foreign help, led many to assume that salvation could only come from outside and in no way depended on themselves. A good system of social legislation and a liberal allowance of public holidays on religious and secular occasions added a false sense of security and even a touch of recklessness to the prevailing attitude.

647 The Productivity Centre, which was supported both by the trade unions and the employers, worked by three main methods. It maintained a staff of experts who made systematic studies of productivity problems, carried out investigations of actual enterprises, and recommended improvements in method. With ERP help it arranged for foreign technical experts to visit Austria and organized study tours of Austrians in the United States and other countries. Perhaps most important of all, it initiated a publicity campaign to make the Austrian people conscious of the productivity problem. Two series of booklets were published dealing with specific aspects of the productivity campaign as it affected Austria, and an illustrated periodical entitled *Der Schlüssel* ('The Key') kept the public informed regarding the activities of the Centre and the efforts made in other countries to raise productivity.

The main aim of the Centre's educational work was to drive two points home: that it is worth while for the individual to increase his income and standard of living by means of better work and achievement, and that Austria's future prosperity would depend upon a co-operative effort by everyone concerned to increase the efficiency of all branches of the national economy.

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

cerned to increase the efficiency of all branches of the national economy. 000

Marshall Aid resulted almost at once in a marked acceleration in the rate of Austrian recovery. 433 ● Whereas industrial production was only about 43 per cent of the 1937 figure in 457 1946 and only rose to 56 per cent in 1947, in 1948 it jumped to 92 per cent, in 1949 to 123, and in 1950 to 145. After this the rate declined, partly because the return to more normal conditions made any further acceleration impossible and partly because the outbreak of the Korean War, by increasing the price of raw materials, reduced by a third the real value of ERP dollar payments to Austria.

By the end of 1951 the extent of Austria's recovery was impressive, and it could not possibly have been achieved without the steady, well-planned assistance on a vast scale that Marshall Aid implied.

The Austrian gross national product in 1951 had more than 433 doubled since 1946 and was approximately 18 per cent above the pre-War level. Industrial production had risen to 165 per cent of the 1937 figure, while agricultural production, having risen from 56 per cent in 1947 to 90 per cent in 1950, remained at about the same level in 1951. Industrial productivity was more than doubled between 1947 and 1951, and in the winter of 1951–2 stood approximately at the 1937 level.

These figures taken on their own, however, are somewhat 434 misleading. For two reasons the real per capita income and the standard of living of the Austrian people were still slightly short of the pre-War level at the end of 1951, although probably about three times as high as they had been immediately after the War. The population had increased by more than 2 per cent, and there were therefore more mouths to feed than there had been in 1937. In addition, a much higher proportion of the national income was being invested than before. After four years of Marshall Aid the average Austrian was eating little more than a third of the quantity of meat eaten by the average American.

If the different branches of the Austrian economy are 000

433 241 If the different branches of the Austrian economy are considered separately, the record of agriculture is the most disappointing, although the rise in population and food prices since before the War made it vitally important that agricultural production should at least regain its pre-War level.

The disappearance of the black market and the progressive adjustment of internal food prices since the end of the War had improved the situation from one point of view. The conservatism of the farmers and the prevalence of small holdings in Austrian agriculture were features that could scarcely be altered. But there were several aspects of the problem that were susceptible to treatment and in which more could have been done both by the Government and by the ERP authorities.

[464] The number of paid agricultural employees, not counting the farmers themselves and members of their families, dropped by nearly a quarter, from 285,600 in 1937 to 217,000 in 1951. In view of the man-power available, more speedy and energetic steps should have been taken by the Government to counteract this tendency. The plan that has been drawn up to deal with it will be considered later. The loss of labour was balanced to some extent by mechanization, carried out largely with Marshall Aid. The number of tractors increased by 850 per cent between 1939 and the end of 1951. But the supply of artificial fertilizer and feeding-stuffs from abroad fell far short of essential needs, and agriculture's share of counterpart funds was less than the allocation to the primary iron and steel industry, which did not employ a tenth of the number of men on the land. It was not until the summer of 1952 that increased imports of feeding-stuffs and an adjustment of prices by the Government made it possible to fix the cost of bread-grains at 25 per cent above that of maize for feeding, and so stimulate farmers to increase their bread-grain production.

433 Austrian forestry and its dependent industries responded well to ERP assistance. During the first three years of Marshall Aid lumber exports increased fivefold, and in 1951 they amounted to 17 per cent of Austria's total exports. By 1951 paper industry production had risen to 113 per cent, and cellulose

production to 102 per cent of the 1937 figure. These results, however, were achieved by continued excessive felling, which was only partly offset by the introduction of more economic methods, including the use of the remoter areas. Special attention was paid to reforestation with quick-growing kinds of timber, but the fact remains that a period of restraint will be necessary if the Austrian forests are to regain what they have lost. 4-3

The privileged position given to Austria's heavy industries in the European Recovery Programme is reflected by the fact that in 1951, whereas consumer-goods production was only 128 per cent of the pre-War level, investment-goods production reached 175 per cent. Stimulated by the post-War demand for capital goods and by the installation of such fine new plant as the blooming-mill at Donawitz and the blooming-and-slabbing-mill at Linz, both provided by Marshall Aid, the production of the heavy industries went rapidly ahead. If the emphasis on this branch of the economy had been overdone, it was not to become apparent until a later date.

The production in 1951 of pig-iron, raw steel, and sheet metal amounted to 270 per cent, 158 per cent, and 149 per cent respectively of the 1937 figures. Iron and steel exports in 1951 were valued at $57 million. Aluminium output rose from 13,357 tons in 1948 to 26,380 tons in 1951, and in addition, thanks to the installation of a rolling-mill at Ranshofen, the production of sheet aluminium and half-finished goods started in 1950. By 1951, 27 per cent of Austria's aluminium production was being exported, some of it to the United States, and at the same time internal consumption had risen sharply, so that Austria had become the fourth largest consumer of aluminium per head of population in the world. The following year aluminium output went rapidly ahead owing to the increased availability of electric current. The export of artificial fertilizer from the Linz works rose to 274,152 tons in 1951 and to 188,135 tons in the first six months of 1952. The number of tractors, lorries, and buses produced by the Steyr-Daimler-Puch Company in 1952 amounted to 11,765. [328]

433 In contrast to these impressive results the record of Austria's comparatively neglected consumer-goods industries was much less satisfactory. Of the two industries that received most ERP help, the electrical industry, after at first suffering from high import requirements and excessive production costs, finally responded to treatment by raising the value of its exports by nearly 400 per cent between 1949 and 1950. In 1951 textile production just managed to exceed the 1937 level. But the export of finished goods as a whole in the first half of 1951 was only two-thirds of the 1937 figure, and during the subsequent twelve months showed a tendency to fall.

The high proportion of counterpart funds spent on fuel and power was justified by results. In 1951 Austrian coal production at 5·2 million tons reached a record level and was 48 per cent above the highest pre-War figure. Output per man and shift rose by 27 per cent between 1948 and 1950. The steam-driven power-station at Linz was restored to full productive capacity, and such good progress was made with the power-stations being built in the vicinity of brown-coal deposits that the total current produced by steam-driven power-stations in 1951 amounted to 1·68 billion kilowatt-hours. The production of hydro-electric current rose from 4·45 billion kilowatt hours in 1948 to 5·66 billion in 1951. In September 1951 the Limberg [312] dam, the first and greatest of the Kaprun dams, was officially opened in the presence of the Federal President. This great engineering achievement, which is the largest curved dam in Europe and one of the largest in the world, makes possible the storage of 86 million tons of water and the annual production of 160 million kilowatt hours of winter current.

As regards other minerals, under the stimulus of ERP support magnesite and copper production went rapidly ahead, while the output of lead, in spite of the exhaustion of the more accessible deposits, has nearly regained the pre-War level. By 1951 the production of copper had risen to 308 per cent of the 1937 level, and the production of raw magnesite to 167 per cent. The figures for the main magnesite products varied between 191 per cent and 248 per cent.

727 valuable natural resources under the pretence that it was
382 German property.

The Austrian Nationalization Law of 1946 included the oil
471 industry, but, so far as oil in the Russian zone was concerned, it never went into effect. In the summer of that year the Soviet High Commissioner announced that all the German-controlled oil-fields had been taken over as 'German assets'. The Soviet Mineral Oil Administration (SMOA) was set up to manage them.

The Soviet authorities did recognize British and American ownership of certain oil-fields and refineries that had not been taken over by the Germans. They are still under British and American management, but are subject to various measures of Soviet control. The producing companies are required to sell their crude oil to SMOA. The refining companies have to buy this oil from SMOA and resell to it the refined product. Payments are made to the British and American concerns in Austrian schillings, after the deduction by SMOA of arbitrary sums for administrative expenses. The disposal of the oil remains in Soviet hands, and the concerns are not able to export it, as they might wish. This limited recognition of foreign rights does not therefore benefit the Austrian trade balance in any way.

727 Exact statistics are not available for the Austrian oil industry
since it has been under Soviet control. But it has been esti-
382 mated by the best-informed authorities that production rose
433 from 846,600 tons, to which it had declined in 1946, to about
3,200,000 tons in 1952, and is thus now probably the highest in Europe.[1] This increase indicates the anxiety of the Russians to extract all they can from the Austrian oil-fields while they have them under their control. The result has been achieved by extensive new boring and by the employment of damaging and uneconomic methods that would normally never be used.

It is significant that the expansion has practically been confined to the ex-German enterprises under purely Soviet control, which have had full freedom of action and exploration.

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[1] Reliable figures for Roumania, its only possible rival, are not available.

During the past few years the proportion of the total yield 727
produced by British and American concerns fell from about 382
15 per cent to less than half that amount. It is even more 433
significant that the 60 per cent of the oil-fields and the prospecting rights that the Soviet authorities suggested should be retained by them under the terms of the draft treaty of 1949 have proved, as was suspected at the time, to be by far the most productive and promising areas. Had the draft treaty been signed and the Soviet allocations accepted, the proportion of oil production now in Soviet hands, on the basis of 1952 figures, would have been 92 per cent instead of 60. The proportion of known oil reserves would have been even more favourable to the Russians.

Soon after the War ended the Russians suggested to the Provisional Government that Austria and the Soviet Union should share the installations and rights in the oil-fields on a 50–50 basis. Dr. Renner had the foresight to reject this offer, which would have given the Russians a permanent footing in the country and had serious political implications. But since then Austria, though so large an oil-producer, has not even been able to purchase from the Soviet Oil Administration enough petrol and other forms of oil from its own production to satisfy its modest needs. It has had to resort to imports from the United States, and on at least one occasion is said to have bought from Western Germany Zistersdorf oil sent by the Russians to Eastern Germany and then exchanged with Western Germany for industrial products. The quantity of oils allotted for home consumption has increased annually with total production since 1949. In 1951, for the first time, domestic needs were practically satisfied. But Austria during the whole post-War period has been allocated no more than about a third of her total oil production. The remainder has been sent eastwards by the Russians, chiefly to Czechoslovakia, East Germany, and Poland.

This state of affairs has of necessity been accepted by the 727
Austrian people. But a welcome demonstration of impatience 382
was given by the National Assembly when a resolution was

XV

Austria and International Co-operation

186 DURING the post-War struggle of the Austrian people there has been a steady growth in their patriotic sentiment and in Austria's consciousness of its identity as a State. The process began between the Wars, and was accentuated by the conflict with National Socialism that preceded the *Anschluss*. It continued during the German occupation, when the concentration camps and the Resistance Movement acted as breeding-grounds for Austrian patriotism. When the War and occupation ended, the exacting tasks that confronted Austrians gave a positive and constructive character to a development that had previously been more of a protest against something objectionable than a live faith in an accepted ideal. No Austrian Foreign Minister in the First Republic would have been likely to say what Dr. Gruber did in 1948, when he summed up the main purpose of Austria's external policy as 'the preservation of our way of life'.

433 ● To this developing State consciousness the fight for economic recovery made a great contribution. The low level to which the country's industrial production and food supplies had sunk in 1945 spurred on the Austrian people to a common effort to master the situation. The Marshall offer was a challenge as well as a great act of generosity. Just as the two main parties had agreed on the nationalization of certain industries in 1946, so later they worked together in conjunction with the Americans to use to the best advantage the unique opportunity for capital development presented by the European Recovery Programme. Ranshofen, VÖEST, the nitrogen works at Linz, and above all the great hydro-electric power projects were symbols of hope for the future. For the first time since the Republic was founded Austrians could make their economic plans in full confidence that they would be living in a viable

State, when once their independence had been restored. If Austria's hopes of solvency were well-founded in 1937, the development of her oil-fields and hydro-electric power since then have placed their realization beyond all doubt, provided she is free to manage her own affairs. 433

Like the Nazi aggression before 1938 and the German occupation that followed, Russia's economic and political obstruction since the War has stimulated Austrian patriotism. Austria's courage and patience under great provocation, her Government's correct attitude towards the Soviet authorities, combined with insistence on its rights, have won general admiration. So her greatest disappointment since the War has, from the long-term point of view, been turned to her advantage, and has played its part in the harsh process by which the Republic has been welded into a unit. 186

Above all, the Coalition Government's record has had a decisive influence. Its problems have been exacting, in some cases insoluble, and it has been a difficult team to manage. Yet on the whole, in face of great difficulties, it can claim to have been one of the most stable and successful governments in post-War Europe. The contrast between political life in the First and Second Austrian Republics could scarcely be more marked. In the one case there was bitter rivalry, mutual intolerance, and frequent changes of government; in the other case co-operation, continuity, and a readiness to compromise for the common good. In eight years Austria has made great progress towards democratic maturity, and the lessons of the inter-War years have been well learned. 642

But their newly developed patriotism and self-confidence have left Austrians under no illusions. They are aware of their limitations, and they realize that political nationalism is out of date. The American journalist who described Dr. Figl as the successor of Don John of Austria, the last knight of Europe, who turned back the Turks in 1571, was read with a smile in Vienna. Austrians think that their main contribution to the world will always be cultural rather than political and will be based on the spirit, the intellect, and the preservation of 648

435 preventing a disastrous decline in the buying power
465 of the broad classes of the population. The unavoidable
652 adjustment of certain distortions in prices as well as the entire stabilization of wages and prices
was undertaken on the basis of the economic, budgetary
and credit policy. This applied also to the coordination
of prices of specified agrarian products which,
in the general development, have to a large extent re-
457 mained below an adequate level. These adjustments were
652 intended chiefly to insure an utmost favorable development of savings deposits and the initiated investment program without intensifying inflation. The promotion of capital accumulation, thereby encouraging the influx of new savings capital to the banks and institutions, and the systematic consolidation of capital reserves of the insurance companies and of the social insurance institutions will, particularly in Austria, gain special importance in the coming years. As a consequence of the elimination of the counterpart funds and of the relative slow reflux of the means invested, resulting in limited possibilities of rediscount with the National Bank, the necessarily long-postponed replacement of the long-term and expensive bank credit to the capital investment market has been initiated. Expressed in other words this means that the reconstruction of the capital basis of economy, by opening the cheaper sources of financing offered by the capital market, should facilitate new short and middle-term credits and consolidate long-term credits which had previously been granted (especially investment and reconstruction credits). It should also contribute to an improved competition of Austrian products on the world markets through an adequate reduction of one of the chief factors of the basic cost price, i.e., credit procurement.

185 All measures of an economic-political nature
652 which are taken, however, are not applied in a purely dogmatic way. They are effected within the ideology of the two big political parties of Austria and thus of the Federal Government which is sustained by the coalition in power. It might be explained that the economic political measures described in the following survey are approved in principle by both of the leading political parties, though it may be that they differ somewhat as to the means and methods of reaching determined aims of political economy.

185 The problem of increasing economic productive-
433 ness receives particular attention from the Austrian Federal Government and the Austrian Productivity Center. Labor and management are equally represented in this

Center in order to safeguard and coordinate professional 185 interests. The steady increase of economic 433 productiveness is intended to be reached by fostering rationalization of managerial dealing and plants as well as by cutting down the cost of production. This too would promote Austrian export trade with an 417 eye to reaching full compensation of export and import figures and thus ultimately to achieve an active 439 balance of payments. In the matter of this problem it should, however, expressly be emphasized that such balance of payments--inasmuch as it has been achieved by new equipment and modernizing of Austrian industry initiated during the last years--can be reached only by and by. It was at a rather recent time that investments could be made in Austria (1950). Consequently, an efficient and satisfactory result from such investments, especially from the big investments, may not be expected before 1954 or 1955. Austria should be allowed, therefore, a reasonable interval of recuperation to overcome the handicap of its very precarious situation. Nor should it be overlooked that Austria, as a country which is strongly dependent on a wide range of imports, is extremely sensitive to all fluctuations and developments on the world markets. Each change on those markets of necessity and automatically has repercussions on the price level in the Austrian domestic markets.

It is certainly a matter of the highest importance for the further development of Austria that the chief foreign markets should be opened for the sale of Austrian products, and especially those which are the result of intensive development. The Marshall Plan having become obsolete, it will be possible in this way only to realize the adjustment of the balance of payments. A balance of payments would, without strongly hurting the social structure of the country, open the way towards the gradual abolition of trade barriers and restrictions, to the alleviation of foreign exchange impediments, and, thus, to a progressive integration of Austrian economy into that of the Continent and beyond that to the world at large. The extension of the foreign trade volume and the increase of the invisible export, chiefly the foreign tourist and transit traffic, are a means of realizing foreign exchange reserves required for financing Austrian imports and the maintenance of an adequate satisfactory volume of employment. The persevering energy and intrepidity of both of the 433 responsible big parties of Austria have been leading the way towards the political and economic consolidation

433 of this country. If it may be asserted that Austria, at the present date, has already exceeded the prewar standard of industrial production (especially as regards the industries creating investment goods) and is approaching the index of the years preceding 1938 in the industry of consumer goods, a careful and unbiased examination of the situation of Austria should also give due consideration to the extremely poor condition of the country at the time when the ERP started its work. In contrast, the Western European countries, at that time, were fortunate enough to enjoy already a much greater degree of favorable economic conditions on which to base their reconstruction. This and the related general changes are factors arising particularly from the traditional markets of Austria, the Southern European countries, which continuously handicapped the economic consolidation of Austria to a very large extent.

As this report surveys the disciplined efforts of the Austrian people to work under great hardships and handicaps the reconstruction of their country, it has also the record the liberal assistance received under the famous ERP, which made it possible to reach the level of economy of today. In doing this, the study becomes the expression of gratitude on the part of the government and the people of Austria.

Winter 1951-1952,
supplemented mid-1952.

Franz Heissenberger

In addition the Institute had been entrusted with a number of tasks by public institutions or by agencies working for public interests. The Federal Chancellery, Central Office for ERP Affairs, entrusted to the Institute the preparation of reports and the expression of opinions as well as other tasks, while the Central Office itself, in accordance with Article VI, paragraph 2, and Article VII, paragraph 4, of the bilateral agreement between the United States of America and Austria of July 2, 1948, prepared the quarterly economic reports, outlining results achieved with ERP means and the economic measures undertaken. The Austrian Investment Program of 1950-1952 has been designed in collaboration with the Institute. 204 816 [648]

A close cooperation exists between the Institute and the "Oesterreichisches Produktivitätszentrum" (OPZ) (Austrian Productivity Center), Vienna. The Zentrum was created by a ministerial decision of March 6, 1950. Dr. Taucher, Chief of the Federal Chancellery, Central Office for ERP Affairs, serves as president. Dr. Nemschak acts as manager. Within the scope of this cooperation a number of problems were investigated: the scarcity of vocational employment for youth and combating it; the Austrian paper industry; the processing of Austrian foreign trade transactions; the Viennese housing requirements and its future development; opinion studies of managers, engineers, foremen, and employees relative to production increases; possibilities of increased yield from the tourist trade through elimination of seasonal trends; cooperation in the designing of rules permitting the ascertainment of production index numbers of cotton textile mills relative to a coordination of the averages with upper and lower margins. Shortly released will be: structural analysis of the Austrian textile industry; analysis of the employment possibilities and causes of unemployment in the catering trade; preparation of a memorandum about the effects of a prolonged scarcity of imported raw materials upon Austrian production and employment situation; the Austrian railroad-trucking problems; the development of productivity since the end of the war; extension of a wage and earning index in collaboration with the Bundeskammer der gewerblichen Wirtschaft; comparison of the living cost indexes of various countries; development of raw material consumption, investment activity and turnover; improvement of living costs and wage index calculations for which additional statistical investigations are necessary. The Austrian Productivity Center published monthly a pamphlet Der Schüssel (The Key), intended to foster within an extended circle of readers understanding of production step-ups and exchange of technical experiences. [647] [1032

204 177 647 433 Operating within the Austrian Productivity Center there is a sub-section for "Technical Assistance." This provides Austrian experts of various establishments with opportunities to acquaint themselves with the latest developments of their business lines in the United States. The results of these study trips are evaluated in a publication *Die Studienreise*, in which the impressions and experiences of the technical assistance delegation are brought to the attention of a large circle of interested persons. The first publications are entitled *Moderne Holzernte* (Modern Lumber Crops) and *Gäste aus Amerika* (Guests from America). To acquaint the public at large in a comprehensive manner with the productivity problem, a popular pamphlet series *Der Ausweg* (The Way Out) has been published, its first number being entitled *Produktivitätssteigerung*--*der Ausweg* (Greater Productivity - the Way Out).

Particularly valuable for the exchange of ideas, formulas, etc., is the Economic Technical Information Service of the Austrian Productivity Center which developed into a liaison office between domestic and foreign information centers. Collaborating with Technical Assistance, it answers inquiries about American production processes, firms and equipment, and loans small-sized motion picture films and projection apparatus. It further provides, in cooperation with OEEC countries, trade or professional journals and books, furnishes excerpts of the latest American professional literature ("Digest and Abstracts Service") and answers inquiries about American licenses and patents. This service is supplied and supported by a documentation center.

647 816 [204] A special cooperation for the furtherance of statistics exists between the Oesterreichisches statistisches Zentralamt, Wien (Austrian Statistical Central Office, Vienna), and the Institute of Economic Research. The Statistical Central Office publishes monthly, in collaboration with the Committee of Economic Central Offices and Chambers, the official *Statistische Nachrichten* (Statistical News), the editor-in-chief of which is presently Hofrat Dozent Dr. Arnold Madlé. In this connection the Oesterreichische Statistische Gesellschaft (Austrian Statistical Society) should also be mentioned. It was established March 31, 1951, for the purpose of cultivating statistics in all sections of the social and natural sciences besides furtherance of statistical teaching. Chairmen of the board of trustees are: the president of the Austrian Statistical Central Office,

642 On December 3, 1945, a committee of the political parties entrusted Secretary of State Figl with the formation of a government, which the Allied Commission approved on December 18, 1945. On December 20, 1945, a session of the Federal Assembly (Nationalrat and Bundesrat) with a vote of 204 out of 205 elected Dr. Karl Renner to the presidency. He accepted the office for the term of six years.

The new federal government as well as the
642 presidency were recognized by notes of the various
643 powers although these notes showed deviations in texts. Thus the first phase of the constitutional reestablishment of the Second Austrian Republic was concluded. The federal government could proceed with the task of solving the most important economic problems.

2. The Situation after the Cessation of Hostilities and the First Economic Reorganization Measures, 1945-1947.

727 The reestablished Second Austrian Republic faced a great economic task. The losses and damages from the war destroyed almost a quarter of the total national capital which had amounted to about 38 billion schillings.

[362] In Vienna alone, 37,000 apartments were completely destroyed and 50,000 partly destroyed, while 25,000 were less severely damaged. Aside from extensive destruction of raw materials was the loss of machinery through dismantlements, especially in the eastern part of the country after 1945, which caused deficiencies in extremely valuable production material amounting to at least 1.2 billion RM (at prices fixed as of 1940). Plants of the electric, vehicle, machine, iron and metal industries, and steel mills lost more than 46,000 machines. This meant that in some instances, the combined loss of the war and postwar period amounted to 80 percent of the
[433] machines and equipment. These deficiencies were all the more burdensome since the destruction and the removal of the production means led unavoidably to severe disturbances in the general economic scheme.

[162] Austria also suffered substantial losses in human lives. Out of a population of 7,000,000, the number of dead or missing totalled 350,000 and the wounded 170,000. These losses were mainly from the ranks of the able-bodied age groups (13 percent).

In comparison to prewar times a definite lowering of individual performance efficiency had set in among the rest of the population caused by years of undernourishment and poor general physical condition aggravated by a series of psychological strains up to 1947. Another thing to be taken into account was the reorientation of the entire European economic structure in the wake of political changes, particularly the solution of certain problems of large industrial enterprises (the iron and steel industry). Last but not least were the great economic and political changes which had taken place in the areas of Austria's traditional markets, eastern and southeastern Europe. 727 [461] [433]

The destruction of capital substance weighed particularly heavy. It was obvious that the greater part of savings capital, accumulated prior to 1945, was economically no longer covered. Within the scope of a planned war economy that money had either been invested in weapons and war material which became valueless, or it was originally invested in profitable enterprises which were destroyed or diminished through the effects of the war, e.g., plants, equipment, razed woodland, etc. On the other hand, in accordance with instructions of the German finance administration, great parts of the liquid assets and reserves of banks, the premium reserves of large insurance companies, etc., had to be invested in bonds of the German Reich (especially Reichsschaftsanweisungen), whose value became as questionable as savings deposits. [454]

In view of these circumstances the Austrian federal government faced difficult problems. For the sake of simply existing it was necessary to reestablish the financial foundation, a task impossible to accomplish without a proper Austrian currency (to be newly created), without gold or foreign exchange reserves to cover this currency, without a national bank of issue, without reconstruction of a banking and credit apparatus, and particularly without first straightening out the balances essential to large banking institutions. 652

Not any less difficult to solve, in relation to the previously mentioned conditions, was the second problem: the revival of production and trade. Apart from incurred losses in plants, machinery and raw materials, the disorganization of communication and the dislocation of great parts of the population, valuable components of the production apparatus as well as other natural assets of the Austrian economy, classified as 433 [438]

433 so-called "German property," were lost to Austrian control and thus lost to the economy.

652 [727] In the foreground, however, was the organization of the currency and credit structure. Until November 1945, Allied Military schillings and the Reichsmarks of the former German administration formed the currency basis of the country. Approximately 7.7 billion Reichmarks and 1 billion Allied Miliary schillings were in circulation, representing an inflation of 850 percent above the 1937 level. This circulation, compared with the almost negligible volume of goods and the low production capacity, made the money practically worthless. Here, therefore, was where the first measures of reform had to be effected.

In 1945 the provisional government provided the first legal foundation for the reorganization of currency and the credit system by the law covering payments by banks (Schaltergesetz), the law covering public and private credit extension (Kreditlenkungsgesetz) as well as the "Notenbanküberleitungsgesetz," which reestablished the Austrian National Bank. It created therewith the preliminaries for an orderly banking and payment service, for the time being still under the statutory power of the then provisional government. With the "Schillingsgesetz" of November 30, 1945, introducing the first currency reform and establishing the schilling as legal tender, the three aforementioned laws were extended to cover the three western occupation zones, the country as a whole received a uniform currency and banking system.

The "Schillingsgesetz" and the conversion decreed reduced currency in circulation (paper) from approximately 7.7 billion Reichsmarks and 1 billion Military schillings to 3.3 billion schillings and the aggregate circulation (banknotes plus contingent liabilities of the National Bank) to about 7 billion schillings. Parallel with this--the first control of all deposits having been effected by the previously mentioned "Schaltergesetz"--occurred a further appropriate blocking of deposited means to restrict purchasing power and inflationary price rises.

652 453 Beginning March 7, 1946, the issuance of bank notes was subjected to Austrian control, the legal basis ensued through an amendment of the "Notenbanküberleitungsgesetz," June 30, 1946, which also promulgated the statutes of the Austrian National Bank as a bank of issue. With the enactment of June 25, 1946, the Austrian National

During July 1946, the parliament passed the 471
first nationalization law (see part A, III, paragraph
b). This nationalized, in addition to enterprises of
heavy industry, mining and shipping, the three
largest Austrian commercial banks (the Creditanstalt- [453]
Bankverein, the Oesterreichische Länderbank A. G.
and the Hypotheken- und Creditinstitut). With the
federal law of March 26, 1947 (second nationalization [377]
law), establishments and plants producing and dis-
tributing electrical energy were nationalized, be-
cause 90 percent of these establishments were already
publicly or municipally owned.

During the years 1945-1946 only the greatest 433
difficulties were eliminated. A noticeable production increase, fostered by increasing imports of raw materials and food stuffs, occurred during 1947 at which time the coal situation was also eased and the crisis in the power sector could be ameliorated. The decisive turn of events in the economic consolidation, however, remained to be accomplished with the assistance of the Marshall Plan.

3. Special Problems in Austrian Reconstruction.

a) The question of "German Property."

At the end of the war, when Austria re- 471
ceived her independence (perforce limited because of 721
occupation statutes), her economic situation had been basically altered in comparison with 1937. The economically and organically different set-up of the German Reich made a reorganization of the economic status necessary. Austrian production means were diminished further by transfers of private as well as public production establishments into German hands, particularly after 1938. This "German Property" became fateful in Austrian economy with the Potsdam Agreement of August, 1945.

According to the agreed terms of the Allied Powers, German reparations were to include German assets located in countries previously occupied or controlled by Germany; these assets were to be subjected to the control of the various Allied Powers relative to their geographic location (in Austria according to occupation zones).

Under this title more than 200 enterprises in Austrian territory, mostly in the eastern part of the country (among them the entire oil industry, 652 453 Closely connected with the procurement of capital is the problem of liquidity upon which, internationally, the repute of a banking organization rests. Therefore, considerations about reconstruction measures will have to include the problems covering the organic cohesion of public and private credit extensions and also currency essentials.

The problematical scope of the entire reorganization of Austrian credit institutions is an extended one containing, besides questions of the budget and currency problem, the problem of capital procurement. In addition to the tax-exempting provisions, it will be necessary to effect certain changes in corporation law. The credit institutions, especially the banks, progressively liquidating relics of a past era, will eventually reestablish their previous traditional business relations with the world's financial centers in the interest of Austrian economy and by doing so, as agents for a progressive productivity, provide the necessary means. The purpose of the entire reconstruction, last but not least, strives towards an increase of the national income.

648 457 B. Marshall Plan Assistance as the Material Basis of the Austrian Economic Policy.

1. The Legal Foundations of Marshall Plan Assistance.

a) Austria's position prior to Marshall Plan aid.

[433] The first two years following the establishment of the Second Austrian Republic permitted arranging a basis for the progressive development of the economy. However, the country's position remained precarious due to insufficient agricultural and industrial output. Domestic agriculture at that time provided only 36 per cent of the "subsistence level" needed to feed the population not engaged in agriculture. Industry, which prior to the war achieved export excesses, was unable to finance its raw material requirements. This caused a need for imports, primarily of food and mineral fuels, which caused a deficit in the payment balance amounting to 2 billion schillings.

However, this deficit was entirely covered by relief shipments and credits. Below is a breakdown of the most important deliveries and credits received during 1947:

Consequently, the Austrian Federal Government in collaboration with the Austrian National Bank decreed, effective October 5, 1950, a uniform rate of exchange for the traffic in goods (with the exception of some food items). This rate was identical to the mixed exchange rate of 21.36 schillings to 1 U. S. dollar. The basic rate of exchange was discontinued. For tourist traffic, traffic in capital and for certain kinds of services, the premium rate of exchange (26 schillings to 1 U. S. dollar) remained in force. Simultaneously, compensation deals in goods were prohibited, excepting a few to avoid losses of foreign trade interests. 652 457

In addition the Austrian National Bank effected, according to newly published bid-rates, a revaluation of its foreign exchange holdings and increased the price of gold to 22,834. schillings per 1 kg fine. Thus, the Nationalbank's holdings of foreign exchange were brought in line with the uniform rate of exchange in force for the traffic in goods while its gold holdings were revaluated as mentioned before. (The revaluation of the gold and foreign exchange holdings brought about a surplus value. Since, in accordance with the Notenbanküberleitungsgesetz, the weekly statement of the Austrian Nationalbank has to contain only gold and foreign exchange holdings necessary as cover, the excess holdings thus derived have been eliminated together with other heretofore not published assets. Meanwhile, until a decision about their employment is found, these excess holdings are accounted transitorily.)

A further development, this time upon an international platform, occurred with the signing of the agreement establishing the European Payments Union (EPU) on September 19, 1950, at Paris, within the scope of which Austria received from the ECA an amount of 80 million dollars to cover her trade deficit with other EPU member countries for the period July 1, 1950, to June 30, 1951. [648]

Although the preceding years had resulted in remarkable economic reconstruction, the Austrian authorities, nevertheless, were aware of the fact that a step-up of economic productivity was necessary to come as close as possible to the mark set by the ECA for 1952. In estimating Austria's endeavors one must take into account her heavy losses of national wealth, so that the effect of ERP assistance became visible only in 1950. This makes the balancing of her payments balance within the limits of the ERP program rather doubtful. 457 433

457 [511] 433 There is no doubt, however, that the desired higher standard of living requires greater accomplishments from the economy if, as is the case today not only in Austria but also in other ERP member countries, edible foodstuffs, raw materials and machinery are not to be continuously supplied by foreign aid. In this connection it is useful to recapitulate the value of such aid. Thus the total value of direct and indirect aid, congressional aid, interim aid, surplus goods, gifts, etc., amounted in 1948 and 1949 to approximately 300 million dollars yearly, an amount sufficient to cover the deficit of the payments balance up to now. In other words, the Austrian economy received more than 6 billion schillings which increased the gross national product available for consumption and industrial investments by 20 per cent. Foreign aid in 1950 amounted to 200 million dollars or 4 billion schillings and in 1951 to 100 million dollars.

433 As a matter of fact, production and productivity increased rapidly during the last years. However, this rapid increase was due to the extraordinarily low starting point. It is true that present industrial production exceeds the prewar level by 40 per cent, but it is a result of using about 50 per cent more than in 1937. At the end of 1950 the individual output index of both industrial as well as agricultural labor amounted to 90. Today, the task of increasing productivity rapidly is far more difficult since, in addition to diminishing foreign assistance, any reopening of idle capacities and procurement of additional raw materials and coal is almost impossible. It follows that every percentage of productivity to be gained requires greater efforts than before.

433 439 454 In connection with the above, there arises in Austria a specific coordination problem with regard to output gains already achieved in other nations, the question of cost computation. (Compared with Austria's present production ability the American, Swiss, Swedish, and English national economies, during 1949, furnished respectively 7, 4, 3 1/2, and 2 1/2 times as much goods and services per capita. This fact is intensified by the progressive industrialization of the previously agricultural countries of southeastern Europe.) If Austrian manufactured goods (as producers of foreign exchange, and therewith as guarantors of sufficient raw materials, employment and living standard) are to be competitive on international markets, the question of decreasing production costs per unit becomes imperative. Such a decrease, excluding developments beyond the control of

plant managements, can be achieved only through 433
accumulation of an adequate yearly (savings) invest- 439
ment percentage (during 1950 investments in plants,
structures, rolling-stock, equipment, etc., amounted 454
to 20 per cent of Austria's national income, against 6 per cent in 1937; the 1950 investments were to a large extent the result of foreign assistance), as well as technical progress, rationalization of plant operations and adoption of modern psychological working principles.

Only such a procedure assures a genuine in- [434]
crease of the real income. However, whether an increased production output is followed by a decrease of prices or by an increase of wages (raising the living standard) or whether necessity demands a combination of both is problematical.

On the basis of a favorable world-wide po- 433
litical scene it is hoped that Austria will realize her economic program as worked out with the help of international experts. Better technical equipment will lower the individual wage quota, thereby establishing a more favorable competitive basis. Thus, together with a transfer of skilled labor to production of export goods, the desired adjustment in the balance of payments will be achieved. In this connection the resettlement drive, initiated by the ERP, furnished a possibility to shift needed manpower to plants short of help. The higher real wages, resulting from an increased productivity, will then provide a basis for the accumulation of savings capital needed for additional investments. However, considering the special position Austria occupies, it will be necessary to grant her a breathing spell for achieving her economic aims.

d) Budgetary developments.

Within the scope of combined reorganization 652
procedures, special attention is directed towards the
balancing of the budget. Due to the large expenditures 727
covering the reconstruction of public enterprises and administrative organizations damaged by the war and the increase in economic tasks of the government, *e.g.*, occupation costs and the expenditures in connection with "Auslandsfürsorge" (welfare of the DP's, expellees, refugees), the consolidation of the budget (in spite of a rising national income) was only partly possible in 1949 and 1950 inasmuch as fluctuating demands exceeded narrow tax receipts.

explained, come from ERP countries and comprise such 439
goods as were, up to this date, to a considerable ex-
tent under indirect aid and were refinanced previously 652
by the Nationalbank. There were special lists for all 457
goods in question.

The cashing of these drafts takes place under the same conditions which apply to imports of semi-manufactures out of ERP funds; the Nationalbank discounts the incoming drafts at the prevailing bank-rate (now 3 1/2 per cent); other banks have a rate 1 1/2 per cent higher.

The total amount which all credit institutions can present in such drafts does not exceed the amount of the refinancing granted for financing imports out of indirect funds.

3. The Structure of Production.

a) Principles of industrial investment.

In accordance with the principles of ECA, ERP 652
funds are used only to finance investments which serve
to balance payments in the shortest possible time, that 454
is, investments which: 1) bring in foreign currencies 457
(by starting new or extending existing production of export goods); 2) save foreign currencies (production of goods important to internal supply, which previously had to be imported from foreign countries, or by improving their competitive position); 3) cause an essential increase in the total economic productivity, i.e., a reduction of production costs and increasing the ability of the Austrian economy to compete with foreign countries.

When hostilities ceased in 1945, most of the 433
industrial enterprises showed great impairment. This 727
was due to: 1) extensive destruction during the actual fighting; 2) confiscation through which valuable equipment for production was removed after the end of the fighting, whereby functional coherence of production was disrupted; 3) changes in economic aims. Before 1945 (not considering the aims of wartime economy) a large number of enterprises were structurally organized on a broader economic territory; after the war, therefore, the industry of Austria had to return to the more specialized industrial capacities of the pre-1938 period; 4) an acute shortage of capital caused by amounts necessarily written off as war losses, funds lost as outstanding claims, etc.

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311 In other fields too there were noticeable losses and a decline in real capital. One might observe in agriculture, for example, a deterioration of soil owing to the shortage of fertilizers and cultivation during the war years, a lack of seeds, fodder and agricultural machinery as well as declining yields in forestry due to overcutting of trees, obsolescence and lack of means of transportation from the forests to the mills. The robbing of coal mines, failure to introduce rationalization and the forcing of unrealistic work in other mines (metals) give us a full picture of a declining economy.

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454 Reconstruction of a productive national economy could be successful only if the economic forces specifically characteristic of the country were activated and coordinated to secure an optimum of the whole economic productivity. This presupposes a knowledge of possibilities based on an inventory of the internal economy and lining up problems according to their importance (to avoid mistakes in investments or overextension). It also presupposes establishing a time schedule for the financial fulfillment of individual projects with a view to the existing shortage in capital. The reconstruction of primary production, as well as the most important industries, have been carried out according to special plans which were worked out by government authorities in cooperation with interested industrial circles. Planning covered, in particular, production of energy, coal mining, the iron and steel industry, and ore mining and the metal industry.

These plans are not limiting as to quantity or time but are a type of structural plans without time limitations, the realization of which is bound to certain financial or material possibilities. With the maximum supplying of internal requirements of energy, coal, iron, metals, etc., they intended to assure lower prices in the finishing industries. In this way a sufficiently high quota of exports should be obtained for a balance of payments. These plans form the theoretical basis for those investment programs which the Austrian government presents to the ECA in Washington and which are realized step by step with the help of the ERP funds.

Just as with other ERP participants it is Austria's primary aim in its investment policy to make the utmost use of all possibilities offered by the Marshall Plan up to 1952. In addition to the development of primary industry, the greatest effort is being made to bring the capital goods industry to the highest technical level. The direction of this policy is determined not only by the high demands for reconstruction within the country itself, but also by the rapid tempo of industrialization of European and non-European regions. If Austria is to be able to compete on the world market after the end of the ERP, it must not only close the gaps in its production but also provide for further undisrupted technical developments. It is clear that Austria has to divert annually from its national income a sufficiently high quota for investment (now about 21 per cent with the help of the ERP) in order to keep pace with other developments.

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In view of the time limitations and the gradual reduction of Marshall Plan aid, it will be the principle of the investment policy from 1949-50 on to give primary consideration to those big investments (for example, in energy and iron-ore industries) whose development was pushed by high capital expenditures and to have them achieve an economically and technically sound condition, if possible, within the period of the duration of the ERP. Basically, the counterpart funds are used for those investments from which payments are expected on the shortest terms so that, along with big projects, numerous smaller and medium sized projects which increase exports get under way. In disposing of counterpart funds, however, those enterprises which demand ERP-financing are forced to cover part of their planned investment out of their own funds (profits, private credits and various deductions).

The main items of the investment policy for future years, excluding the arrangements of the so-called "Long-term Program," have been fixed by the Reconstruction Program 1950-52, which was presented to ECA in the summer of 1950 and amended in the late fall of 1950, owing to price alterations. Based on the 1949 price level, the investments for the three year program had been set originally at 24 billion schillings. This figure was revised to 27 billion schillings in accordance with the change in prices and wages which occurred in October 1950. It was the aim of the partly transferred investments to create such conditions as to obtain an increase of production of domestic raw materials, to save foreign currency and to set at the disposal of the domestic economy those raw materials which can be found to a suitable extent in the country itself. As part of this plan, for example, the construction of four more power plants will be started, the output of coal shall be increased to 6 million tons from the present 4 million

652 tons, the production of iron and steel to 1 million
[195] tons annually, the output of rolling mills to ap-
433 proximately 750,000 tons. Further increases in pro-
duction will be provided in: bauxite mining, aluminum
454 production, production of cellulose, paper and pulp. In the same manner the export capacity of nitrogen plants (Sticksstoffwerke in Linz), one of the most important producers of foreign currencies in the Austrian economy, will be increased by 50 per cent. In the chemical industry additional investments will make it possible to start production of sulfuric acid and phosphate fertilizer. The single projects will be discussed in detail in another connection.

b) The renovation and rationalization of the primary industries.

The Austrian government holds to the principle (insofar as none of the theoretical considerations in the preceding chapter interferes) that in building up its program of investments cheap primary products lower the production costs in the finishing industries and this allows them to compete in the sharp competitive battle with other highly industrialized
[655] European countries. Certain focal points of investments have been formed, encompassing especially coal, iron and steel, ore mining, and the smelting industry as well as electrical power. These are mainly nationalized enterprises. For investment purposes in the years 1948 and 1949 they received a total sum of 1,627.4 million schillings out of public funds. Of this amount, 958.5 million schillings were reconstruction credits, 481.6 million schillings were capital payments of the Federal government, 31.2 million schillings were federal loans and 156.1 million schillings were credits guaranteed by the state. In 1950 a sum of 30 million schillings was provided in state capital contributions; in the same year (fall of 1950) the funds released from the ERP for the above-mentioned branches of industry totaled 133 million, 283 million and 418.5 million schillings used essentially as follows.

316 (1) Investments in coal-mining.

During the war the coal mines (predominantly
454 brown coal in Austria) suffered greatly in their development because of overproduction and neglect of needed renovation as well as delay in planned expansion. Within the scope of the Marshall Plan the necessary renovation and rationalization of operation, mining improvements, shaping of daily operations, deep mining,

there is an increase of the total imports to 6366 439
million schillings in 1949. In the structure of imports coal and foodstuffs formed a relatively important part in 1948 and 1949. The imports of primary foodstuffs (such as bread grains, flour, fats, sugar, meat, livestock and leguminous plants) were 111 per cent of the 1937 figure in 1947 and increased to 113 per cent and 122 per cent in 1948 and 1949, respectively.

The high demand of the Austrian industry for coal (especially hard coal, blast furnace coke and coke) could only be covered by sufficient coal imports since the demand is far higher than in the prewar period. The volume of coal imports was 69 per cent and 88 per cent more in 1948 and 1949, respectively, than in 1937. Although the continuing extension of electric energy may allow lower coal imports, the proportion of coal imports to the total imports will remain higher than the prewar level due to structural changes of the Austrian industry. The import of foodstuffs and coal constituted in part a handicap to the import of raw materials. Of the total raw material imported (excluding coal) in 1937, similar imports reached only 25 per cent in 1947, 64 per cent in 1948 and 85 per cent in 1949, in which year total imports exceeded the prewar level.

Austrian industry in this period, therefore, [433]
was supplied with foreign raw materials to a lower extent than in 1937. That it was able to exceed prewar production despite this condition is mainly due to the favorable development of industries producing production means (based on domestic iron ore production). Moreover, foreign raw materials, aided by the investment program, could be replaced in part by domestic products (such as rayon staples). The extraordinary high quota of the import of finished goods can be explained by the high demand for invesment goods in the country itself, which could be covered only partly in domestic production.

The structure of imports is regionally very 439
different from that of the prewar era. Whereas in 457
1937 the state regulation of foreign currencies, fixed quotas and clearing agreements formed an elastic system which was capable of using the cheapest sources of imports, in the first years after the war imports were forced into quite different direction by intensified bilateralism (which has been relaxed since by increasing

(271 million schillings), cotton goods (204 million schillings), fireproof bricks (200 million schillings) and glassware (201 million schillings). 439

The total index of import prices in 1950 was 627, that of export prices 531 on the basis of 1937 = 100. The corresponding figures for 1949 were 407 and 387. The increase of prices for import goods, therefore, were on an average far higher than was the case with exports (54 per cent as against 37 per cent).

A comparison of the commercial imports with exports for 1950 shows an unfavorable balance of 576 million schillings (as against a balance of 1.2 billion schillings in 1949). Including gratis deliveries within the scope of the ERP, the deficit, however, increases to 2.7 billion schillings (in the previous year the deficit of the total exchange of goods was 3.7 billion schillings). The deficit in the exchange of goods with foreign countries was covered in the first half of 1950 by drawing rights and in the second half of 1950 by using up the Austrian credits at the Bank for International Payments after the agreements with the European Payments Union had gone through.

Further betterment of the Austrian economy is intended through the following. The Export Advancement Law (Ausfuhrförderungsgesetz) provides granting medium and long-term credits up to a limit of 500 million schillings under state guarantee. [Up to March 23, 1951, the Nationalbank received applications for credits totaling 174.5 million schillings; 79 million schillings of which represented refinancing. As the state guarantee comprises only 80 per cent of the export credit, 77.6 million schillings (80 per cent of the 97 million schillings) were tied up on the key-date in accordance with the Exporterförderungsgesetz, *i.e.*, 15 1/2 per cent of the maximum of 500 million schillings.] The Austrian Export Funds A. G. (Oesterreichische Exportfonds A.G.) will support exports of craft goods to hard currency countries through credits. They will start with 25 million schillings. [The first interim balance of the corporation shows credits amounting to 16.4 million schillings, *i.e.*, about two-thirds of the export funds (25 million schillings) at the end of March, 1951.] On October 5, 1950, an agreement was reached for simplification of exchange rates together with measures for

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434 schillings in 1937. Although this increase from 1948 to 1949 was caused mainly by changes in prices, the fact remains that the gross national product increased in 1948 by 15 per cent and in 1949 by another 12 per cent. Thus, the prewar level was [432] approximated. The increase of capacity and at the same time the increase of the gross national product in the years 1948-50 is due to the rise in productivity of the whole economy. However, further increase will be even more difficult because the utilization of capacities and of available labor reserves will advance. Although industrial production had reached a level in 1947 equal to 56 per cent of the 1937 level (in 1949 119 per cent and in 1950 140 per cent of the prewar volume), the productivity increased in the same period from 47 per cent to 79 per cent (in 1949) and 90 per cent (in 1950). Therefore, it still lags behind the prewar period. The same holds true for agriculture; the total production (agricultural and livestock production on the basis of 1937) reached only 55 per cent of the 1937 level in the year 1947, 80 per cent in 1949 and approximately 84 per cent in 1950, but the productivity reached only 90 per cent.

[439] Remarkable progress was attained as compared to the years 1945-46. By its own efforts and with the help of foreign aid Austria could satisfy the urgent demand for imports and the volume of imports was increased above the prewar level. The exports, however, lagged behind as measured by the quantum-index. The same holds true for the balance of services. On the basis of economic data the balance of payments of Austria in 1950 is presented in the following table.

Explanatory notes to table:

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a. Quoted in dollars due to change in exchange rate.
b. Calculated in dollars for 1949 and 1950 by the Oesterreichische Statistisches Zentralamt.
c. Other services.
d. Up to June 1950 including drawing rights.
e. Among them aid deliveries in form of credits; no decision has been made about the obligation for repayment.
f. Net payment of drawing rights up to the end of June 1950, and Initial Position payments since July 1950.
g. Provisional figure.

aid which was granted.) The result was not only a very early claim upon direct aid (in the third ERP year, i.e., from July 1, 1950, to June 30, 1951--8.81 million dollars) but also an exhaustion to a very considerable degree of the Initial Position supplied by the EPU in the amount of 80 million dollars. To ease the precarious situation, the OEEC was asked to increase the direct aid and to extend the Initial Position. This was granted by ECA after complicated discussions with regard to the special situation in Austria; at last, amounts of 18.2 and 10 million dollars, respectively, were granted for the period up to June 1951. 457

B. Credits, Wages, Prices and Subsides (Measures and Agreements).

The higher prices of foreign raw materials, 652 [439] their shortage, and the reactions which followed the fourth price and wage agreement reached between the Chambers of Economy (Wirtschaftskammern) in September 1950 led eventually to an actual transfer of the single cost elements, thus endangering the potential exports of Austria designed for the international market. In 1950 the center of gravity in the foreign trade policy lay with the foreign currency policy and was the main concern of the Nationalbank. The existing international shortage of raw materials shifted this center to the planning of quantities of imports and exports. The Austrian Federal Government, therefore, had to coordinate Austrian economy with world economic conditions. A number of economic-political proposals were introduced in the National Assembly which, limited in time to June 30, 1952, were enacted in the last session of the Fall Convocation 1950-51 (ending in February 1951). These were the laws enacted:

1. The law concerning the creation of an economic directorate (Wirtschaftsdirektorium) consisting of members of the Federal Government; it has as its task coordination in the fields of production, prices, food supplies and foreign trade policy; [656]

2. An amendment to the price control law (Preisregelungsgesetz) to exercise a rein upon prices; [435]

3. An amendment to the raw materials allocation law (Rohstofflenkungsgesetz) which is supposed to channel raw materials of which there is a shortage toward those goals which are most urgent economically; [433]

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To evaluate these consequences, the changes in the structure of production are of main interest. According to the Austrian school of national economy, and according to the conception of competent representatives of this science in Sweden and in the Anglo-American area, the main consideration has to be given to changes in the relations between productive and consumptive utilization of capital. As in European countries other than Austria, the production indices of production goods industries increased at a higher scale than those of the consumer goods industries. This economic center of gravity becomes more clear by listing the release of the ERP funds for the total industry. Excluding public investments and means for covering special reconstruction problems, approximately 2 billion schillings out of a total of 2.6 billion schillings flowed into the production goods industry (power plant construction, coal and ore-mining, iron producing industries, etc.) and 607 million schillings into consumer goods industries (textiles, foodstuffs, paper). The distribution of these funds was aimed at affording Austria the opportunity to match the technical and industrial developments in the rest of the world, at least in the field of primary materials and semi-manufactures. The use of a big part of the credit volume, therefore, is fixed by the purposes of the official investment programs which are worked out by the Austrian government in consultation with economic circles and the ECA in Washington. Complementary credit demands (Betriebsmittelkredite) are tied to this credit as a consequence of the extension of capacity and the industries participating directly in these investments.

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The agreement on qualitative and quantitative credit measures reached between the Federal Ministry of Finance and the joint stock banks in the spring of 1951 was followed by an additional agreement of October 10, 1951, paralleling the general international development. This later agreement allowed an increase in the total credit provided or promised by a bank, as of August 31, 1951, under certain conditions. [These are schilling credits in current amount, draft credits regardless whether the drafts remain in the portfolio of the bank or whether they are rediscountable moreover, mortgages and municipal loans (unless they already serve to cover issued mortgages and municipal obligations), as well as requirements against Austrian credit institutions which do not exceed a thirty-days' validity. Not included in the total are reconstruction credits, credits granted for financing exports and

	1947[a]	1948	1949	1950[b]
	(In millions of schillings)			
A. Current Expenditures				
Import of Goods	312.0	489.8	603.7	481.6
Invisible Expenditures	4.3	6.0	21.1	28.5
Total	316.3	495.8	624.8	510.1
B. Current Income				
Import of Goods	90.7	206.9	291.5	335.0
Invisible Income	19.8	21.7	37.8	46.1
Total	110.5	228.6	329.3	381.1
C. Deficit of the Current Balance of Payments	205.8	267.2	295.5	129.0
D. Increase in Deposits of Foreign Currency	7.3	19.4	11.1	30.3
E. Debt Liquidation	--	8.0	7.5	6.9
F. Statistical Correction	+ 6.0	+ 6.7	- 1.3	+45.5
G. Import of Capital, including Aid Deliveries	219.1	301.3	312.8	211.7

a) According to estimates of the International Monetary Fund.

b) 1948, 1949 and 1950: According to reports of the Board of Directors of the Austrian Nationalbank.

In spite of the initial difficulties and in spite of the impossibility of taking up the threads of development as they were before 1937 (attention is called to fundamental changes in the political, economic and social structure of central and south-eastern Europe), Austria was able to hold to a level which secured inner stability and an equilibrium in external relations. With the help of foreign aid granted in the last few years, Austria was thus able to achieve, among other things, a balance of payments.

Since 1946, when the gross national product available for consumption and investments (goods and services) had sunk to almost half the prewar amount, the gross national product and productivity has been doubled in the last few years. By 1950, the prewar level was exceeded by 10 per cent. In the same period industrial production increased two-and-a-half times and the volume of the total agricultural production increased by approximately one-half. A relatively high 434 433

433 434 investment rate as well as an increase of the general level of consumption was made possible by this extension of the gross national product.

In 1951, the gross national product (according to provisional calculations and estimations of the Oesterreichische Institut für Wirtschaftsforschung) increased by about 7 per cent in spite of production bottlenecks. This figure, however, is slightly lower than in 1950 (10 per cent), but still higher than could be expected in a normal economy. This increase was almost exclusively due to the industrial production which, owing to the 10 per cent rise in productivity, could produce 14 per cent more goods than in 1950. In this way reactions on the level of prices could be neutralized in some ways [457] through the greater quantity of goods. However, as the exchange conditions in Austrian foreign trade deteriorated by 10 per cent, and as the increase in prices on the world market lowered the real value of foreign aid by one-third, the Austrian economy in 1951 had only about 4 per cent more goods and services (i.e., about 2.3 billion schillings) for consumption and investments at its disposal than in 1950. Tourist traffic showed an increase of about 20 per cent more overnight guests in 1950-51 than in the preceding season, but the remaining sectors of economy, especially agriculture, showed only slight progress.

434 454 In the previous six years, especially since 1948, a far greater part of the gross national product was invested than before the war. In 1937 only about 6 per cent of the available gross national product was used for investments. The percentage increased from 17 per cent in 1948 to 20 per cent in 1950. As a comparison, the annual average in Great Britain is about 18 per cent. In 1951 the increase of the gross national product invested reached its highest extent, about 21 per cent. The greater part of these investments was carried out within the scope of the public budget or through special funds (for instance, reconstruction fund for dwelling units) and out of ERP funds. (In 1951 about 3.7 billion schillings flowed in from the purchase of ERP goods upon counterpart accounts). The high level of the investment rate, however, was only possible with foreign aid. It will be one of the main considerations of the Austrian economic policy to keep to or divert an adequately high rate after the end of the Marshall Plan. In this connection the adjustment between the investment rate and the monetary stability as well as the distribution of investments between

industries of production goods and consumer goods, 434 will gain top importance. 454

During the Marshall Plan period preference was given to short-term investments within the scope of the Austrian Investment Program 1950-52. [457] The aim was to ease the strain on the balance of payments, either by an increase of exports or by a decrease of the import demands, whether by direct or indirect means (for instance, by lower prices for semi-manufactures in industries which depend upon exports). 652 The decisive factor for the selection of investments was the degree of contribution to the balancing of 454 payments within the shortest time possible. This had 457 to be coordinated with the requirements for big projects which had been started or were far advanced. In this way the projects could be completed in a technically and economically sound way. By finishing the started projects, especially in electric energy and in the iron and steel industry, Austria should be enabled to use its rich natural resources (water power, iron ore) as rationally as possible and better than was the case before. In view of the low capacity of the domestic capital market these projects had to be carried out, as far as possible, within the ERP period. In spite of the continuation of big industrial projects, the main tendency of the three-years' program (1950-52) is to give industries and crafts which need export outlets as well as the tourist traffic higher counterpart sums in the last two years than they received in 1948-49. It is self-evident for reasons of export and social policy that the investment plan tries to support, above all, small and medium-sized enterprises of the semi-manufactures category and the crafts.

Development of the most important economic fields is on the average satisfactory. 433 One has to consider, however, that the full results of investment 327 projects, especially the big ones, will not show up until 1954-55. Most impressive has been the development of the iron producing industry. Thus, for instance, in 1950 about 15 times more raw iron and 5 times more raw steel and rolled products were produced than in 1946. The production of the iron producing industry surmounted that of the prewar level in 1945. Compared to 1937, by 1950 the production of raw iron was higher by 128 per cent, that of raw steel by 46 per cent, that of rolled products by 37 per cent, and that of pressed and wrought iron products by as much as 246 per cent. This development continued in 1951. Thus, the production of

433 raw iron was increased to about 1.04 million tons (as
[327] compared to 883,000 tons in the preceding year) and
the raw steel production to about 1.03 million tons (as
compared to 943,350 tons in the preceding year). This
increase in production was possible through an increase
in mining output, which amounted to approximately 2.37
million tons in 1951, as compared to 1.86 million tons
[378] in 1950. In the car industry, emphasis lay on the pro-
duction of tractors, heavy trucks, busses and motor-
[392] cycles. Agricultural machinery production was 119 per
cent higher in 1950, lathes 110 per cent higher, ball-
bearings 327 per cent, nails and screws 56 per cent
more than in 1937. Although the electrical industry
[393] had suffered most seriously from war damages and dis-
mantling, and although various raw materials, mostly
of foreign origin (such as electric thin-gauge plate,
copper, lead and various special products), could be
obtained only with difficulty, the total production in
1950 was double that of 1937. This favorable development
has continued in 1951 despite the shortage in raw
[387] materials. The chemical industry reached a capacity far
higher than before the war in spite of extensive war
damages. The Linz Stickstoffwerke, for example, not
only cover the domestic demand for nitrogen but export
considerable quantities of nitrate of lime and phos-
phate. Production of the latter amounted to 525 tons
per month in 1938, during the first six months of 1951
it reached an average of 35,000 tons per month. The re-
sults in some finishing and consumer goods industries
lagged behind, but even so substantial increases could
be reached, especially in enterprises which are important
[289] for export (for example, the paper industry). By 1950
three per cent more paper was produced than in 1937.

[316] A remarkable increase was made in domestic
soft coal mining. The production of electric current
[377] rose from 3,050 million kwh, 1946, to 4,911 million kwh,
1950, an increase of 61 per cent. This remarkable in-
crease of capacity in 1950 is almost exclusively due to
water power, the production of which increased to 690
million kwh. In extending and financing electric power
projects differentiation must be made between finishing
started projects (water-power plants, steam plants,
transmission lines and transformers), new construction,
international projects, export, and projects of local
importance (see Wirtschaftsberichte No. 12, October 1951:
"Oesterreichische Wasserkräfte als Beitrag zur Energie-
versorgung Westeuropas," by Erich Heller and Oscar Vas).

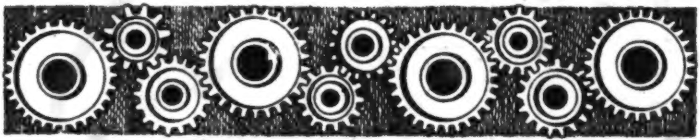
Industrial Production Index - Comparison of Averages for October (monthly average 1937 = 100) 433

	1951	1950	1949
Total Index of Production	180.3	145.4	122.8
Production Goods	230.7	178.6	151.6
Consumption Goods	138.8	117.3	98.3
Total Index of Productivity	105.7	91.8	82.1

Although agriculture and forestry showed [311] some results production was lagging behind due to many soil-improvement measures which were neglected during the war. It remained behind the prewar level. Further investments are now being made in this field. Considerable increase can be seen in the traffic capacity [497] of the Federal Railways. The extension of electrification, modernization of traffic installations, of rolling stock, and of railway stations are among the projects.

Tourist traffic is of special importance to 457 achieving balance of payments. Tourist traffic was one of the most important foreign currency earners before 1937. In 1948-49, 31.6 per cent of the number of overnight guests for 1937 was reached. This proportion rose to 70.4 per cent in 1949-50 and to 74.3 per cent in the winter season of 1950-51. However, the income from foreign tourist traffic lagged behind that of the prewar period. It amounted to 15.1 million dollars in 1950. With regard to its purchasing power, it reached one-fifth of the 1937 level. In this field also investments for modernization and extension of enterprises are continuing. The aim is to reach a reasonable balance between investments and incomes from foreign currencies. Similarly motivated is the [529] aim of opening areas of the country which might be very important for tourist traffic by building new roads and means of transport, such as cable cars and ski-lifts. In the investment program for 1950-52 net investments of 960 million schillings are provided for this sector alone.

The main vehicle for the balancing of payments is foreign trade.



THE AUSTRIAN ECONOMY AFTER 1918.

439 The disintegration of the Dual Monarchy was immediately followed by severe economic disturbances. These were by no means small, even in comparison with the position after 1945. The heart of Austria, with its highly developed trade, was suddenly completely cut off from its former inland sources of raw products and markets. The oilfields of Galicia, like the important coal deposits in the lands of Bohemia, Moravia and Silesia, were lost, having fallen to the Succession States, and the loss of the agricultural surplus areas produced a threat of famine.

433 The Succession States—Czechoslovakia, Yugoslavia and Hungary—each attempted to build up a national economy, to balance its economic structure and to make itself
439 as far as possible independent of raw and semi-manufactured materials and finished goods. A division of labour which had grown during decades into one complete organism was thus broken up, to the detriment of all peoples living within this territory. For Austria this meant that an intensive system of internal trading suddenly turned into one of foreign trade, where great difficulties had to be overcome. At first even inter-state transport communications were further complicated by barriers created by the Succession States.

728 The nadir of those days was reached with the signing of the Treaty of Saint-
433 Germain, which revealed the full extent of the catastrophe. Austria's tragic path at that time was blocked by a series of apparently insurmountable obstacles to
458 the procuring of essential foodstuffs, coal and raw materials. Inflation to an extent never before seen set in and led to a selling-out of national assets. The unfavourable basis of the rump economic structure as well as the instability of Austria's relations with foreign countries seemed to doom all her efforts to failure.

648 After difficult but very skilfully conducted inter-state negotiations, the governments
457 of Czechoslovakia, France and Italy were persuaded to advance credits to the Austrian Republic. The Allied Powers convinced themselves that Austria, if help came from the League of Nations, would exert her own energies to the utmost in order to put her finances and trade on a sound footing. The will of the
652 Austrian Government to stabilise the budget, demonstrated by the previous abolition of food subsidies (in December 1921), did much to assist these efforts. The Financial Recovery Plan which was signed at Geneva on October 4th, 1922, proved the turning

point. The banknote printing presses were stopped and national administration 652
put on a firm footing through drastic measures of economy.

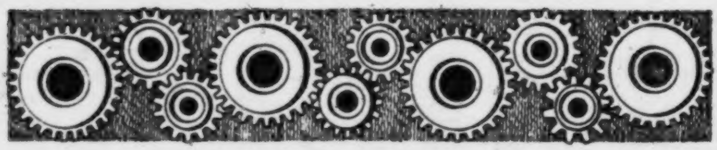
However praiseworthy the efforts which led to a balancing of the budget, the 433
difficulties which still confronted Austrian trade remained considerable. Austria's
productive capacity was far greater than its markets (which had shrunk to an eighth 439
of their former size) could possibly absorb. As a great part of Austrian industry
was devoted to manufacture, the country was dependent on the import of foreign
raw materials (textile, metal and chemical raw materials, hides, furs etc.) and
auxiliary materials (above all coal). On the other hand, the social services (unem- [745]
ployment pay, emergency aid, health insurance etc.) which were more extensive
than in all the other Danube States made the costs of Austrian production comparatively high.

All Austria's efforts were directed towards export. In 1931, 25 per cent of all inland output was exported, 45 per cent of this being industrial production. If one works out the value of goods exported per head of population and compares it with the exports from other countries it will be seen that in 1937 Austria was ahead of Germany, France and the U. S. A., the comparative figures being 39 : 36 : 34 : 28.

As an industrial country, Austria was forced through the ceding of her agricultural
surplus territories to rely on the import of foreign foodstuffs. These imports had 457
to be paid for by the export of industrial goods, as had also the raw and auxiliary
materials.

According to the balance of payment figures for the year 1934, the exchange of commodities, which amounted to 63 per cent of all listed inter-state payments was the most important item of Austria's inter-state economic transactions. Second in importance were payments under the heading of invisible imports and exports (balance of services), which amounted to 23 per cent of the total payments. Austria made a profit on these transactions of about 200 million schillings. That proportion of the goods imported which could not be covered by exports alone was therefore paid for by services in the strictest sense of the word. Of these services, the tourist trade and transit trade were the most important.

Through the loss of former markets, Austria was forced to form new export connect- 439
ions in the north, south, west and overseas. As the goods which had formerly been
exported to the east and south-east were not automatically marketable in these



439 territories, Austrian producers were forced to adapt their output to these new conditions. This was of course only possible through the painful process of making certain changes in the economic structure.

439 135 The main bases of Austrian trade, as vital then as now, were:

a) the abundance of forests which ensure timber for export as well as for the furniture-making and paper industries.
b) The deposits of iron ore which form the basis of iron and steel production and the iron-working industry.
c) The wealth of water in the alpine districts, constituting an extensive source of power which is being increasingly exported in addition to supplying Austrian industry with current.
d) The recently-discovered inland oil fields (at Zistersdorf).
e) The fashion and luxury-article industry, an export factor of increasing importance.
f) The credit balance of services (tourist trade and transit trade).

● 433 It is one of the characteristics of industrial-commercial production that Austria, as a result of her comparative lack of capital, should be at a disadvantage whenever it is a question of mass production. But wherever there is a chance for painstaking finishing, special skill or workmanship, as well as good taste and original ideas on the part of the producer to play a rôle, the prospects of success are excellent. It is not only, as is often mistakenly imagined, the fashion and luxury industries to which this applies, but all the many branches of manu-
472 facturing where it is the quality of the work which counts. These factors are strengthened by the prevalence of small concerns in Austria. Factories with up to 100 employees amount to 75 per cent of the total, those with 100 to 1000 employees to a little over 20 per cent, and the factories employing over 1000 persons to only 4·4 per cent.

652 433 458 After the stabilisation of the currency, production and export trade showed a favourable increase between the years 1923 and 1929. Production rose during this time by nearly one third. Then followed the general slump, especially serious for Austria on account of her great dependence on export. The development which had begun so hopefully was now brought to a standstill through the external crisis.

Banking in Austria is carried on chiefly by joint stock banks, some of which have an extensive branch business. A few of the smaller concerns are situated in the provinces. Apart from these there are a number of highly respected banking houses and nine provincial mortgage banks. Two special characteristics of the first named are their ability to give individual attention to clients and their valuable foreign connections. The provincial mortgage banks are public bodies which have the principal duty, apart from other banking transactions, of attending to mortgage and municipal credits, financing the loans they grant through the issuing of bonds of mortgage.

Despite the difficulties still to be encountered in the reconstruction of Austria and its economy, the Austrian banks will continue to place their services at the disposal of the nation's commerce in accordance with their traditions, and to assist in securing for the Motherland a brighter future after long years of impoverishment and peril.

THE AUSTRIAN INSURANCE SYSTEM.

Insurance, with its estimation of risk and liability, of success or collapse, forms a mirror of Austria's development from the First to the Second Republic.

Within the space of not quite thirty years—1918 to 1945—the Austrian insurance concerns were faced with

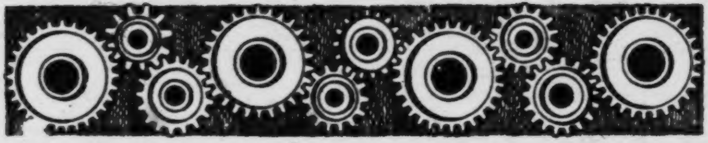
a food catastrophe would have been inevitable 727
and the work of reconstruction have been indefinitely postponed.

From the outset, everything possible was done 727
to help build up foreign trade again. At first, in
view of transport difficulties, only trade with 439
neighbouring countries came into consideration. The initial results were not great, since all these countries were busy with their own reconstruction and usually themselves needed the goods which Austria wanted. It was only gradually that by means of compensation agreements and later of clearing agreements, the trade relations which in 1938 had been broken off with Austria's most important suppliers and customers could be resumed.

In this way raw materials and auxiliary products as well as the means of production for industry were brought into the country, thus forming a basis for the recovery of industrial-commercial production. With the improvement of food conditions, the power situation and the increasing exploitation of available resources, output again began to rise.

In 1947 it was possible to reach 61 per cent 433
of the industrial production of the year 1937; for the first time in 1948 output rose above 85 per
cent of the former figure. Industrial employment [464]
figures for 1947 were 19 per cent and those of the year 1948 were about 30 per cent higher than those of 1937.

The most rapid strides in industrial production were first made in the branches more remote from



433 the consumer—mining, the iron industry, metal works and the chemical and silicate industries, while progress in consumer goods was comparatively slow.

439 This was due to the prime necessity of reconstructing the country's own trade and of a similar need in those European countries which buy goods from Austria. In proportion as world trade again becomes normal, however, the structure of Austrian commerce will take another shape and the share of specific export goods in the total sent abroad will increase. It is thus necessary to avoid excessive development of the industries manufacturing capital goods, or there will be a danger that the problem of supporting undesirable investments which arose just before 1938 may once again rear its head to hinder the progress of Austrian trade.

In any case the threatening economic vacuum of the year 1945 has been overcome and the development of the productive powers of the Austrian economy is growing. But there is still a great deal to be done in the way of reconstruction. This does not mean only the replacement of objects and material destroyed by the war. Still more important is it to work out the new shape of Austrian trade and the forms best suited to it. Conditions are in so far more favourable than those in the period after 1918 in that the work of reconstruction itself offers an opportunity of adapting the new framework to actual economic conditions and thus of gradually completing the

the double task of coping with the results of two wars and of adapting themselves three times to altered territorial conditions.

Despite the political liquidation of Austria-Hungary in the year 1918, Austrian insurance companies were generally able to keep, in one form or another, the position which they had built up during decades of pioneer work in the territories of the newly created states. One may say that with the setting up of the insurance system in Austria-Hungary, an economic and civilising mission had been carried out. Until quite recently the management of important businesses in the territories of the former Monarchy meant—either through the systematic grouping of affiliated concerns, through reinsurance connections or through the establishment of branches of the main concern—a useful fusion of trade interests in the Danube region with a consequent favourable effect on the prospects of peace in this area.

Even though it has been possible to avoid inflation since the Second World War, the year 1945 placed Austrian insurance in a much more difficult situation than that in which it had found itself in 1918. The period of German occupation had left behind it an unenviable inheritance. There was first the direct effect of

131 democratic neighbours, is therefore an essential condition
for checking Germany's "*Drang nach dem Osten*" in the
721 future. Indeed, if the Austrian state had not existed it
might have been necessary to invent it.

721 Fortunately, no such invention is needed. The events
which have taken place in Austria in the days of liberation,
642 and since, testify to the ardent desire of most Austrians to
rebuild their country on a firm, independent, and democratic basis. Austrians from all sections of society took part in the armed expulsion of the German occupationists. The liberating armies in the east and in the west were everywhere greeted with joy. For the first time in Austria's history, there is a spirit of unity and common purpose among all democratic Austrians. This has enabled them to form in a surprisingly short space of time a truly representative government, free trade unions, a progressive youth movement, and other democratic bodies which have made a bold start in rebuilding the shattered
668 political and economic fabric. Remnants of Nazi cells
and of Nazi ideology have certainly survived and remain to be dealt with. But there is no doubt that the vast majority of Austrians have been cured of any illusions they may have entertained about the necessity or desirability of an *Anschluss.*

433 This is a very welcome fact. It is, indeed, an essential
condition of any democratic revival. But it is not, by itself, sufficient. As the Moscow Declaration rightly indicates, the creation of satisfactory economic conditions is essential if stability and peace in that area are to be secured. And it is on this score that some people, who are otherwise entirely in favour of Austrian independence, begin to raise their doubts. They remember the prolonged controversies after the last war which centred on this very point: whether the new Austrian Republic would

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be able to lead a healthy economic life. These are doubts 433 which have persisted down to the present day, in spite of twenty years of an independent Austrian economy.

At first sight, it seems rather strange that Austria should be singled out in this way. Why is the same question never raised with regard to other small nations in Europe or South America? For Austria is in many ways far better placed than many other countries. She possesses a considerable variety of important natural resources; far more, for instance, than her wealthy western neighbour, Switzerland. There are almost unlimited sources of water-power; there is a wealth of timber, iron ore, and oil; the population contains a high proportion of skilled workers in a large number of industries; and Austria is situated at the junction of a number of major European trade routes. Thus we find that Austria is better off than any of the other eastern and south-eastern European countries, about whose viability there has been no question whatever.

Nevertheless, it is not difficult to discover why Austria was singled out for this kind of discussion. The end of the last war saw the break-up of the Habsburg Empire and the birth of a number of new national states. Now, while each of these states was faced with problems arising from the new economic set-up, Austria, above all others, was regarded as the mutilated remnant of the old Monarchy. This country, with its 6½ million inhabitants, formerly a metropolitan province of a 50 million empire and closely integrated into its economic life, had now to adjust itself to a completely new economic and political environment. Would the new Austria, impoverished by war and inflation, be able to accomplish this task smoothly and within a reasonable space of time?

As we shall see later, Austria managed, after some 648 difficult and troublesome years, to tackle this problem and

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648 to stand on her own feet. But the doubts about Austria's viability were not silenced. On the contrary; they were raised with increasing insistence in at least one quarter: amongst the Pan-Germans in Germany and in Austria. To-day, we see more clearly, perhaps, than ever before how the arguments against Austria's economic independence were used to further Germany's imperialist designs, both before and after Hitler's access to power in Germany.

It was not without effect. The constant repetition of the same argument weakened Austria's power of political and economic recuperation and progress.

Nor, as we have seen, has this propaganda failed to make headway elsewhere. The doubts of 1920 still linger on. 121 If, in the following pages, we tell the story of Austria's economic development in her twenty years of independent existence, this is not only to show what has been achieved, and what lessons need to be drawn from the experiences and mistakes of the past, but also to destroy finally the myth of Austria's "inability to live".

727 At present, there are naturally many initial difficulties to overcome before Austria will become prosperous and 433 economically healthy. These difficulties, however, are simply consequences of a process of looting in the course of seven years during which Austria was harnessed to the German war economy, and of heavy destruction wrought during the last phase of the war. Disruption of transport and traffic, acute shortage of food and other essentials, temporary isolation from the outside world—these are consequences of war which Austria shares with all states of Europe which had been under German rule. It is absolutely clear that without large supplies of food and fuel Europe as a whole will barely be able to live through the first years of peace. Thus, in Austria, too, all available

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energies will have to be directed to securing by improvisation the bare means of existence and survival. Even after the initial period only a gradual progress in reconstruction is to be expected. This book does not intend to deal with the difficult and manifold problems of the immediate post-war emergency measures. It has a wider aim. It proposes, by a critical study of the inter-war period, to outline more generally how Austria, by harnessing all her resources and adapting herself to their best possible use, is able to attain prosperity and to keep pace with a corresponding process of world economy. 4/33 727 /121

Before turning to the development of the inter-war years, however, a few words should perhaps be said about Austria's natural resources and about her economic development before the last war.

NATURAL RESOURCES

Austria, like Switzerland, is a mountainous country, and so the scope for agriculture is naturally limited. Only 28 per cent of the total area is arable land, while another 30 per cent is taken up by permanent meadow and pasture. This compares with 47 and 18 per cent respectively for Czechoslovakia, 68 and 19 per cent for Hungary (a typical agricultural country), while the percentages for Germany[1] are 46 and 17 and for the United Kingdom[2] 24 and 31 respectively. Accordingly, Austria belongs to the industrial and food-importing nations of Europe. Even so, her soil and climatic conditions have favoured the growth of certain special branches of agriculture, such as those connected with milk and milk products and fruit growing.[3] In these fields an export surplus had been achieved by the beginning of the thirties. 311 [133]

"Land not under cultivation" takes up as much as 42 per cent of the total. That 42 per cent represents, how- 311 /137

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[1] [In 1930, i.e. exclusive 5 of the Saar Territory]

[2] [Figures for 1937]

[3] [Cf. Cat. 11b, p. 12 — Analyst]

487 Pass and the Semmering Pass allow goods from central and northern Europe to cross the Alpine barrier and to travel south to the Mediterranean countries. Further, a number of other important lines of communication fan out from Vienna, enabling Austria to provide important transit services to other countries.

The natural beauty of the Austrian countryside is well known, and the rapid growth of tourist traffic in the inter-war period shows that Austria, like Switzerland, is a natural "recreation centre" not only for her own citizens but for a large number of people from all parts of the world.

AUSTRIA'S DEVELOPMENT BEFORE THE LAST WAR

178 The feudal character of the Habsburg Monarchy was no fertile soil for the development of an industrial bourgoisie. The industrialization of Austria-Hungary started rather late and proceeded slowly as compared with that of Germany and western Europe. When, however, railways began to be built after 1830, manufacturing establishments sprang up in growing numbers, both to provide for the needs of the railway companies and to make use of the new transport facilities. This process of industrialization gathered momentum after the middle of last century, when the foundations were laid for a great variety of industries. The great depression of 1873 resulted in a serious setback, but progress was soon resumed, though at a somewhat slower rate.

433 A few figures will help to illustrate the rate of growth in that period.[6][7] Between 1841 and 1871 the production of
179 pig-iron increased from 200,000 tons to 770,000 tons. In 1871 Austria[7][2] possessed 1½ million cotton spindles and 580,000 wool spindles. Between 1870 and 1913 the production of coal increased from 3·4 million tons to 16·5

[7] [CA CAT. 116, p. 12 -- [8] ANALYST[7]]

[2] [CA CAT 116, p. 12 -- ANALYST]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

million tons, of lignite from 3·1 to 27·4 million tons, of 433 •
pig-iron from 0·25 to 1·8 million tons. The railway network increased in the same period from 6,000 km. to 178
23,000 km. and considerable strides were also made in agriculture and in foreign trade, though the latter played only a comparatively small part in the economic life of the Empire.

The trend towards industrialization is also shown by 178
the percentages of persons engaged in Industry and 162
Commerce at various dates (figures for Austria-Hungary).[8] 1

	1869	1890	1900	1910
Industry	19·7	21·3	22·2	24·2
Commerce and Transport	5·2	6·2	7·3	8·8
Agriculture	67·1	62·4	58·1	56·8
Services, Professions and others	8·0	10·1	12·2	9·9

These figures suggest that, in spite of a constant process of industrialization, the Austrian-Hungarian Monarchy was still a predominantly agricultural country. Moreover, this process was spread very unevenly over the whole area, leaving some regions seriously undeveloped while others attained a highly industrial character. While, for instance, the percentage of persons employed in agriculture in 1910 was 57 for the whole monarchy, it was 69 for Hungary alone but only 40 for Bohemia. In fact, 178
industrialization was largely concentrated in a few areas, viz. the Bohemian-Moravian-Silesian region, rich in coal, the area round the Styrian iron ore deposits, and the Vienna district. Later, another industrial region sprang up in Upper Austria, between Steyr, Enns, and Linz.

Several factors were responsible for this high degree

1[Cf CAT. II16, P. 12 — —ANALYST]

CHAPTER II

THE BIRTH OF A NEW REPUBLIC: EARLY DIFFICULTIES

AUSTRIA'S EXHAUSTION AFTER THE GREAT WAR

727 FROM the moment of birth of the new Austrian Republic, on the 12th November, 1918, it was clear that this small country, descendant of the old 50 million Empire, was faced with a colossal task of economic and political readjustment. But this was not all. By 1918 the old Monarchy had ceased, in every sense, to be a "going concern". This rendered the resumption of normal economic life particularly formidable. For in addition to the loss of capital and of human life invariably associated with war, the cumbersome working of the Habsburg bureaucratic machine, the antagonism of the suppressed minorities, and above all the ruthless military and economic exploitation of the half-hearted Austrian war partner by the "efficient" German war machine, had all exhausted the entire economic life of Austria.

722 It had become clear, as early as 1916, that the Empire was unprepared for a long war on two fronts and unable to cope with the growing difficulties of internal inefficiency and of the blockade. By 1917 the economic and military position was so serious as to prompt the Emperor Karl to explore the prospects of a separate peace. These attempts were however quickly frustrated by the then all-powerful Germans.

722 Shortages now appeared in every field. Owing to the
433 dearth of raw materials, the indiscriminate call-up policy

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

of the first war years, and the growing anti-war feeling of 722 the population, production fell to utterly inadequate levels. 433 By 1917, the yield of the wheat harvest had fallen to 47 per cent of the 1913 level, rye to 43 per cent, barley to 29 per cent, oats to 25 per cent, potatoes to 51 per cent (in 1916), and sugar beet to 43 per cent.[1] There were similar reductions in the output of practically all agricultural products, with the one notable exception of turnips, whose output increased to 213 per cent over the same period.

There is no reliable index for industrial output as a whole during that period, but figures for certain specific products may serve to illustrate the general trend. Between 1913 and 1917 the production of sugar fell to 43 per cent; of beer, to 7 per cent; of margarine, to 6 per cent. While the output of cast iron rose to 189 per cent and of the number of locomotives built to 170 per cent that of pig iron fell to 64 per cent. In textiles, the production of raw silk fell to 53 per cent and the amount of wool consumed to 20 per cent. Paper production fell to 47 per cent.[2]

In view of this catastrophic fall in production (particularly in essentials) the living conditions of the population deteriorated rapidly. Rations were constantly reduced, 722 and even then they were not always obtainable. Universal malnutrition and actual famine conditions in some areas resulted in a great increase in disease and mortality. Clothing was defective and inadequate. Thousands of families lived in cold, dark rooms in the winter of 1917–18. Nor were the soldiers any better off. Not only was there a serious shortage of munitions: even those who were fighting under the most adverse conditions on the eastern front were short of food and clothing. One soldier might have a jacket but no shirt, the other a shirt but no jacket. Sawdust was added to the flour in order to make rations go

[1] [CP. CAT. 116, p. 34 -- ANALYST]

722 further. There were cases when soldiers "deserted" from their training barracks to the front line because there rations were at least somewhat larger.

When finally peace came to the war-weary country, 727 economic conditions, instead of improving, actually 453 became worse. The economy was now completely disrupted, mainly because the new Austria was suddenly cut off from all normal sources of supply. Austria had habitually had an import surplus with the other parts of the Empire. Now these channels of supply were almost hermetically closed through the newly erected national frontiers. The new countries had their own serious problems of reconstruction and were of course unwilling to export important raw materials except on a strict barter basis. But in those days there was pitiably little that Austria could offer in return.

The result was that everything was short—food, coal, 727 raw materials—and many sections of economic life came practically to a standstill. The position of the population became worse; in Vienna, particularly, conditions were desperate. Not only were the usual supplies from Hungary and Bohemia no longer forthcoming; the rural provinces of Austria proper, too, withheld their produce so as to cover their own shortages. Also, war-requisitioning and the lack of industrial goods had made the peasants suspicious and hostile towards the capital. The food situation in Vienna quickly became hopeless. From August to December, 1919, the maximum obtainable per day on the bread and flour ration was 100 to 170 grammes of flour. Milk supplies (which had amounted to 900,000 litres daily before the war) dropped to as little as 30,000 litres. Even infants and invalids had to go short of milk. After more than three years of hard work and malnutrition these shortages could not but have the most damaging effects on

457 727 of countries and also by the neutral states. Altogether, between 1919 and 1921, relief credits to the value of about £27 million were given to Austria, of which £9 million came from Great Britain, the largest single lender. These relief credits were secured by a mortgage, with priority over all other charges, on Austrian State property.

But while the relief of the food situation was the most 433 727 pressing need, the plight of the industrial sector was no less serious. All coal supplies from Bohemia and Upper Silesia were, at first, cut off. The domestic coal ration was 15 kg. per family per week, and even this was not always available. On the main line from Vienna to Salzburg there was only one slow train per day. It stopped at every station, and its time of arrival was anyone's guess as the breakdown of the old rolling-stock and the lack of coal caused frequent and lengthy hold-ups. Often the travellers had to walk beside the train because the locomotive could not pull the load over a steep hill. Of the blast furnaces in Upper Styria only one could be kept working; and that at a time when there was an enormous need for all basic materials. In fact, practically all important raw materials were in short supply. In consequence production had to be cut down or stopped altogether. [457] The amount of supplies from abroad was determined by so-called "compensation treaties": barter agreements on a strictly quantitative exchange basis. There were further complications. For instance, until the rolling stock of the old Monarchy was finally divided up among the various "Succession States", all goods had to be unloaded at each frontier station, as no state would allow its waggons to leave their own territory. This tended to raise costs and to cause greater delay, reducing still further the already meagre flow of goods.

It is, therefore, not surprising that in its initial stages

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• 9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

production was in a chaotic state and could not absorb the 433
men who came back from the army and from the munition 727
industries. Unemployment, which had been at a level of
about 46,000 in December, 1918, rose quickly to a peak of 727
186,000 (131,500 in Vienna) in May, 1919, at the very 464
time when the Western democracies enjoyed a short-lived
post-war boom. After that, unemployment decreased
steadily until it reached its lowest level in November, 1921,
when there were 8,709 unemployed on the register.

THE INFLATION

The extent of Austria's economic exhaustion after the 727
last war has been deliberately described at some length so
as to indicate the level from which reconstruction had to
start. No doubt, it was a tremendous job. But, with the
relief credits to help out in the first period of distress, it
was surely not beyond the strength of the Austrian people
to build up a working economy. The tens of thousands of
workers who struck work in January, 1918, in order to
finish the war, the soldiers who returned disgusted with
the war and the old régime, the peasants who had more
than enough of the constant military requisitioning, all
combined to turn out the Emperor, practically without any
bloodshed; and they now looked confidently to the new
Republic to lay the foundations for a new life.

There was much enthusiasm here that could have been 186
harnessed to a great crusade for the rebuilding of the
nation's life. But it was the tragedy of the situation that 665
the statesmen of the day, those of the right and those of the
left alike, completely lacked the required conception of
leadership. Instead of stimulating the patriotic and social
aspirations of the masses and guiding them in the difficult
tasks of reconstruction, the general attitude of the leading
politicians, reared in a 50-million empire, was to profess

1/A [Cf CAT. 1/6, p 34 — —ANALYST]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

458 745 pensioners and others dependent on small fixed incomes. These people were reduced to abject poverty; they were compelled to sell most of their belongings and to turn to public assistance. These reductions in income occurred side by side with the creation of a small class of new rich—the inflation profiteers who had been able, through skilful buying and selling, to amass considerable wealth.

458 433 464 But there was also a brighter side to the picture. In the first stage of inflation, at least, the rising price level and the flow of new money stimulated industry and quickly raised production above the stagnating post-war level. The unemployed, whose number had greatly risen after the end of the war, were almost completely absorbed into work:

NUMBER OF UNEMPLOYED RECEIVING RELIEF

	1919	1920	1921	1922
February	162,104	69,427	16,217	33,554
May	186,030	45,883	9,518	44,281
August	133,362	23,970	11,702	30,967
November	—	14,733	8,709	55,008

458 433 Production increased in almost every field. Agriculture, for instance, largely regained its pre-war productivity in this period; and agricultural production was also increased by an extension of the area under cultivation.

YIELD PER HECTARE IN QUINTALS

	1913	1919	1923
Wheat	14·8	9·3	12·6
Rye	14·7	8·0	10·8
Barley	13·9	8·8	12·7
Oats	13·5	8·0	11·6
Maize	16·3	12·7	15·1

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

Sugar production rose from about 57,000 quintals 458
in 1919–20 to about 138,000 in 1920–1 and to 160,000
in 1921–2. Production of chemical pulp increased from 433
75,000 tons in 1919 to 102,000 in 1921 and 128,000 in 1922, while exports increased from 17,000 tons in 1921 to 46,000 tons in 1922. Paper production, which was 92,000 tons in 1919 and 94,000 tons in 1920, went up to 128,000 tons in 1921 and to 151,000 tons in 1922.

The industrial situation was further relieved by the 458
crisis which followed the post-war boom in western
Europe and the United States. Raw-materials which had 439
been in very short supply in the immediate post-war period 433
were now easily obtainable and the fall in world prices to some extent counteracted the rise in Austrian import prices due to the rapid rise in the value of foreign exchange. Imports of vital raw materials increased quickly.

There is then no doubt that the inflation accelerated the impending recovery. At the same time the extent of the inflation and the resulting distortion of the price structure prevented the reconstruction of industry on new lines. With prices and costs rising almost hourly, speculation became far more important and profitable than the careful consideration of technical improvements and of long-term development. The proper timing of buying and selling—be it labour, goods, or foreign exchange—became the main pre-occupation of business. Perhaps the main thing after 1919 was to get the productive mechanism going in one way or other. This was largely achieved in the inflationary period. But the process of readjustment was still to come.

Inflations normally stimulate exports and discourage imports. For the extraordinary demand for foreign exchange, the "flight from the currency" drives up the exchange rate at a quicker rate than the domestic price level so that exports become cheap and imports expensive.

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

458 •433 439 This was precisely what happened in Austria. But while exports increased more than imports the balance of trade continued to be unfavourable.[10][1]

This was partly due to the fact that production in Austria was as yet insufficient to provide exports on any scale; partly because Austrian exports have a high "import content" so that every increase in exports involves increased imports. Also, the fall in world prices in 1920 tended to reduce the margin between the Austrian and the world price level.

Unfortunately, we have no statistics on invisible exports. But there is every indication that these exports increased considerably. Vienna soon regained her importance as a transit centre: by 1920, the weight of goods passing through the great municipal warehouses had already increased over three-times as compared with 1913. The Viennese banks again played an important part in the "Succession States" and the Balkans, and the low value of the Crown attracted an increasing number of foreigners to Austria. The number of foreigners arriving at hotels in Vienna rose from about 230,000 in 1920 to about 330,000 in 1922. On all these scores a considerable income must have accrued to Austria which helped to fill at least part of the gap on the balance of trade.[11][2]

458 471 But the low value of the Crown and the insatiable hunger for foreign exchange did not only stimulate current exports. It also led to the sale of capital. Real estate, houses, and industrial shares were sold to foreigners and part of Austria's industry thus came under foreign control. It was in this period that a decisive parcel of shares of the Alpine Montan Gesellschaft, Austria's most important heavy industrial concern, passed into the hands of a group of Italian capitalists from where they wandered on until they became the property of one of the firms belonging to

[1] [Cf. p. 35, CATEGORY 116 -- ANALYST]

457 world, and the field was left open to private investors who failed to appreciate the long-term needs of that area.

433 But in spite of the heavy unemployment, production continued to increase; though there were some setbacks in the capital-goods industries which had benefited most from the inflation. The following figures may serve to illustrate the trends of this period (no general index of production is available for these years):

Production	Unit	1922	1923	1924
Coal, lignite	Thousand tons	3,136	2,659	2,777
Steel	" "	481	499	370
Paper	Waggons	15,108	15,285	17,211
Wheat	Thousand tons	202	242	231
Rye	" "	345	402	411
Potatoes	" "	1,398	1,426	1,647
Sugar	Quintals	244,680	472,555	750,102
Merchandise carried by railway	Thousand tons	—	5,493	6,174

The general rise in production was mainly due to the installation of modern plant during and after the inflation, to the resumption of more careful costing and accounting practices, and to a considerable rise in output per head. By 1925, total output reached about 80 per cent of the pre-war level.[2] 1

464 The overall figures of unemployment conceal, however, the very uneven incidence of unemployment in the various industries: a consequence of the structural changes then taking place. In February, 1925, when unemployment had reached the high level of 193,000, the percentage of unemployed was fairly low in the quickly expanding light and consumer goods industries—8 per cent in the food processing trades, 4 per cent in the paper industry, 6 per

1 [Cf. CATEGORY 11b, p. 50--ANALYST]

331 362 633 beginning of a great housing programme which replaced slums by beautiful modern houses and attracted the attention of experts from all over the world, and which revived the building trades and with it, a great number of related industries in Vienna and the rest of the country.

CONSOLIDATION

.433 Once the currency was stabilized and more normal conditions established, the upward trend in industrial and agricultural production became more marked as well as more general. It now seemed as if the earlier economic problems of Austria would soon find their solution and that a sound basis for a new national economy would be formed. And this would have doubtless been true if the process of consolidation of that period had not come to an abrupt end in the world economic depression.

For progress was quite considerable. Industrial production increased quickly and at a rate which compares not unfavourably with development in other countries during the same period.

INDICES OF INDUSTRIAL PRODUCTION

(Average 1925–9 = 100)

	Austria	Germany	Czechoslovakia	United Kingdom
1925	89	87	88	99
1926	89	87	86	76
1927	100	109	100	109
1928	110	108	111	104
1929	113	109	115	112

Two points should, however, be noted in this connection. Firstly, the increase in output was achieved not so much by the absorption of the unemployed but rather by a widespread policy of rationalization. Secondly, from about 1927 onwards, industrial development came under the influence of an increasing degree of protectionism.

Protectionism, coupled with tax reliefs and subsidies, became more important still in agriculture. Once it was clear that the high tariff policy of the "Succession States" made a return to the old economic relations impossible, it was decided to foster agriculture in order to render Austria less dependent on food imports. Agriculture in Austria had been badly neglected before 1918, mainly owing to the influence of the Hungarian gentry who wanted to maintain their monopolistic position in the agricultural sector. Now that this influence was weakened, and the peasants' confidence in Austria's economic stability restored, there was a remarkable increase in the area under cultivation and in productivity.

	Wheat			Rye		
	Area in ha. (000's)	Yield in thous. q.	Yield per ha.	Area in ha. (000's)	Yield in thous. q.	Yield per ha.
1925	195	2,904	14·8	383	5,500	14·3
1929	208	3,154	15·1	374	5,104	13·6

	Barley			Oats		
	Area in ha. (000's)	Yield in thous. q.	Yield per ha.	Area in ha. (000's)	Yield in thous. q.	Yield per ha.
1925	140	2,006	14·2	307	3,884	12·6
1929	158	2,694	17·0	296	4,510	15·2

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	Potatoes			Sugar		
	Area in ha. (000's)	Yield in thous. q.	Yield per ha.	Area in ha. (000's)	Yield in thous. q.	Yield per ha.
1925	176	20,684	117·4	20	4,925	244·1
1929	189	28,030	147·6	30	6,912	227·6

As a result, Austria's dependence on food imports was somewhat reduced. This applied particularly to rye, sugar, and potatoes; in the case of potatoes the import surplus actually gave place to an export surplus. More important, there was a change in the structure of Austria's agriculture. Great strides were made in the spheres of stock-raising and the dairy industry which are particularly suited to Austria's topographic conditions. Between 1925 and 1930 the proportion of home-raised live cattle supplied to the Vienna market rose from 19 to 44 per cent. For beef the proportions were 17 and 33 per cent respectively, and for pork 47 per cent and 52 per cent. The establishment of 310 new co-operative dairy-farming and cheese-making companies greatly stimulated expansion in the dairy industry. In spite of increasing consumption, imports of milk and other dairy products fell from 40·1 to 9·1 million schillings between 1924 and 1929, while the exports of these products increased from 1·1 to 10·5 schillings over the same period. Within six years an adverse balance of almost 40 million schillings in this group was thus wiped out and an export surplus established.

464 In spite of all this progress the problems of unemployment and of an adverse balance of trade remained as yet unsolved.

It had already been suggested that the increase in indus-

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AUSTRIA'S FOREIGN TRADE

(in million schillings)

	1926	1927	1928	1929
Imports	2,771·3	3,094·1	3,230·1	3,248·3
Exports	1,706·4	2,040·5	2,202·1	2,169·0

But the adverse balance remained uncomfortably high throughout. The larger part of this deficit—probably 700 to 800 million schillings—was covered from income on the various invisible items mentioned earlier. The remainder is accounted for by foreign borrowing. It has been estimated that between 3,000 and 4,000 million schillings had been borrowed between 1923 and 1930.[1] This would not have mattered greatly in normal world economic conditions, except that a large part of these loans consisted of short-term advances to the banks. A large part of this money was lent to industry on, what was in fact if not in form, long-term conditions. The dangers of a sudden withdrawal of these funds should have been obvious. Moreover it was clearly impossible to continue indefinitely with an import surplus of that size since, in addition to current interest payments, the capital itself would ultimately have had to be repaid.

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But it was not easy to find a solution. Austria's demand for her imports—mainly food and raw materials—was highly inelastic and could not be easily adjusted to changing conditions; while her exports—mainly manufactured goods—were increasingly excluded by the tariff walls that sprang up all over Europe. Slow, and sometimes painful, structural changes did, however, take place which prepared the ground for later improvements.

Reference has already been made to the improvements

[1] [CP CATEGORY 116, P. 50 --- ANALYST]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

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in agriculture which reduced the need for imports. Industry, too, increasingly adapted itself to the new conditions. When it became clear that the traditional markets in south-eastern Europe became less accessible and that the outlets for some of the staple exports diminished, both the commodities produced and the markets supplied became more diversified. The export of textiles, for instance, declined from 25 per cent of total exports in 1924 to 20 per cent in 1929 while the share of the newer light and fashion industries increased. An increasing share of exports went to Western Europe and overseas. Exports to Hungary, Yugoslavia, Roumania, and Bulgaria, on the other hand, dropped from about 38 per cent in 1924 to about 27 per cent in 1929.

The new Austria was, in fact, beginning to find its feet. There were difficulties which were common to all countries at that time and others which arose from Austria's recent past. It was clear that these difficulties were capable of being overcome, given time and effort. Suddenly however the economic progress of Austria, like that of most other countries, was sharply interrupted.

458 purchasing power, followed by an orgy of tariffs, quotas, and currency wars, was therefore bound to hit Austria [439] severely. Moreover, Austria was particularly vulnerable owing to the fact that the financial problems inherited from war, inflation, and foreign borrowing suddenly became acute and led to a severe crisis.

The turning point, as in most other countries, came in the third quarter of 1929. Prices tumbled down, production declined, unemployment grew, foreign trade vanished. The following figures indicate this process of decline in Austria and some other countries.

INDEX OF INDUSTRIAL PRODUCTION

(1929 = 100)

[433]

	1929	1930	1931	1932	1933	1934
Austria	100	85	70	61	63	70
Czechoslovakia	100	89	81	64	60	67
Hungary	100	95	87	82	88	99
United Kingdom	100	92	84	84	88	99
U.S.A.	100	81	68	54	64	66
Germany	100	86	68	53	61	80

PERCENTAGE OF WORKERS UNEMPLOYED [1]

[464]

	1929	1930	1931	1932	1933	1934
Austria	12·3	15·0	20·3	26·1	29·0	26·3
Czechoslovakia	2·2	4·5	8·3	13·5	16·9	17·4
Great Britain	10·4	16·1	21·3	22·1	19·9	16·7
U.S.A.	8·2	14·5	19·1	23·8	24·3	20·9
Germany	9·3	15·3	23·3	30·1	26·3	14·9

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[1] [Cf. CATEGORY III, p. 63--ANALYST]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

THE EFFECTS OF THE WORLD CRISIS

IMPORTS AND EXPORTS

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Value in national currencies (000,000's omitted)

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		1929	1930	1931	1932	1933	1934
Austria	Imp.	3,263	2,699	2,161	1,384	1,148	1,153
	Exp.	2,189	1,851	1,291	764	775	857
Czecho-slovakia	Imp.	19,942	15,680	11,725	7,459	5,799	6,349
	Exp.	20,485	17,460	13,106	7,329	5,843	7,267
United Kingdom	Imp.	1,111	957	797	651	626	680
	Exp.	729	571	391	365	368	396
U.S.A.	Imp.	4,339	3,114	2,089	1,325	1,433	1,636
	Exp.	5,157	3,781	2,378	1,576	1,647	2,100
Germany	Imp.	13,447	10,393	6,727	4,666	4,204	4,451
	Exp.	13,483	12,036	9,599	5,739	4,871	4,167

These figures clearly demonstrate the extent and the universality of the depression.

The decline in foreign trade, which was everywhere far more severe than the decline in production, affected Austria gravely. The increasing adoption of "beggar-my-neighbour" policies greatly restricted outlets for Austria's manufactured goods. Tariffs rose to incredible heights in central and south-eastern Europe; quotas, import prohibitions, and a hundred and one forms of administrative protectionism blocked the flow of goods.

Austria was compelled, in turn, to resort to increasing 652
protectionism and her agriculture, in particular, was
increasingly cut off from the world market. Home food 433
prices were, in fact, maintained much more than prices of manufactured goods, and this resulted in an increase in agricultural production, contrasting strangely with the persistent decline in industrial output.

The workers, of course, had now to pay relatively higher 458
prices for their essential needs. On the other hand, the 435
stability and purchasing power of another important

CHAPTER V

RECOVERY

TOWARDS A BALANCED NATIONAL ECONOMY

IF the world depression had dragged Austria down with it, the subsequent world recovery reacted beneficially on her economic life. The deflationary policy pursued by the Government after the financial shocks of 1931 tended, indeed, to retard the upswing in Austria. Nevertheless, from the second half of 1933 onwards, there was a clear and unmistakable upward trend in all spheres of economic life. 458

Industrial production, which had fallen to 61 per cent of its level in 1932, increased rapidly until it reached a new record level in 1937, the last year of Austria's independence. 433

INDICES OF INDUSTRIAL PRODUCTION

(1929 = 100)

	Austria	Czecho-slovakia	Germany	Great Britain	U.S.A.
1932	61	64	53	84	54
1933	63	60	61	88	64
1934	70	67	80	99	66
1935	80	70	94	106	76
1936	86	80	106	116	88
1937	103	96	117	124	92

This increase in production naturally led to some reduction in unemployment. Unemployment figures, 464

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

464 which had passed the 400,000 mark in 1933, fell gradually to approximately 320,000 in 1937. This was, however, still considerably above the level of 200,000 unemployed in 1929. In fact, the problem of unemployment, particularly in the heavy industries and among commercial and administrative workers, remained virtually unsolved. The policy of the Government lay the foundation for a more solid and independent national economy. But it fell far short of an expansionist policy that would have ensured the full use of the country's human and material resources.

341 433 Of great importance was the conspicuous progress in agriculture which had been continuous ever since 1920. In a world striving for self-sufficiency, where markets for manufactured exports became increasingly closed, it was necessary to reduce the import requirements for foodstuffs. This object was largely achieved. Taking 1923 as the first normal year in Austria's economic life, we obtain the following picture of development.

	Year	Production (in 1,000 quintals)	Per cent of Requirements
Wheat	1923	2,419	33
	1936	3,678	63
Rye	1923	4,023	76
	1936	4,605	81
Barley	1923	1,710	63
	1936	2,531	85
Oats	1923	3,754	82
	1936	4,029	94
Potatoes	1923	14,262	95
	1936	24,994	100
Sugar	1923	473	31
	1934–6	1,919	99

234 439 Even more important were the structural changes in agriculture. In particular, great progress was made in dairy farming; an industry which had been badly neglected

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

471 typically Austrian high-quality consumer goods industries. Between 1938 and 1942, the number of business enterprises in Austria declined from about 21,300 to 16,300, while the corresponding number in Germany increased from 337,000 to 353,000 over the same period.

648 The changes were less spectacular in agriculture. But
many of the large estates belonging to the Church and the
423 monasteries as well as State-owned land came into German
167 ownership. Farmers who were in difficulties were not
728 assisted but bought out and German "hereditary farmers"
(*Erbhofbauern*) were settled in Austria. At the same time the sons of Austrian peasants were sent to Poland, Russia, and even to Bohemia and Moravia in order to "colonize" these areas. However, the changes in property relations were of less importance in the sphere of agriculture than the extreme regimentation of production and the system of forced deliveries which reduced the peasants to a state of serfdom.

728 It is too early as yet to give an exact picture of the effects
of seven years of German domination on Austria's econ-
471 omy. Some major results are, however, clearly discernible.

648 First, it is clear that the Germans completely changed
the economic structure of Austria. Austria's economy
433 was wholly adapted to suit the needs of the German war
machine. And since Austria, like Czechoslovakia, was for a long time the safest place from air attack in Hitler's *Festung Europa* it became one of the most important centres for the production of armaments. Heavy industry was greatly expanded. In Linz alone the Hermann Goering concern erected 320 coke ovens and 6 blast furnaces. In 1943, it was estimated that about 25 per cent of Germany's war industries had been concentrated in Austria.

On the other hand, many of the specifically Austrian

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

industries producing high-quality goods such as electrical 728
equipment, precision instruments, food products, leather
goods, arts and crafts, the fashion industry, etc., were 471
either completely ruined by the dearth of raw materials, 433
or they lost their identity by being absorbed into some
German concern. Many smaller firms with a high reputation 644
had to close down, and their carefully built up personnel was drawn into the army or into the armament industries. A considerable effort will be required to restore these enterprises which are of great importance for Austria's exports, particularly in her trade with Britain and the United States.

In agriculture, too, the many promising developments before 1938 were brought to an end and production was devoted to the sole purpose of yielding as great a surplus for Germany as possible. In particular, the output of vegetables, staple foods and industrial crops was greatly stepped up.

While Austria's economic structure has been altered, total production was greatly increased. Between 1938 and 1944 steel output, for instance, was doubled; the production of aluminium rose from about 4,000 to 72,000 tons, and the generation of electricity increased from 2½ million kW.h. to almost 10 million kW.h.

The upward trend in war industries was accompanied by considerable shifts in the location of industry. In particular, the Linz-Wels-Steyr area in Austria was greatly expanded and converted into a huge centre of heavy industry. Motor roads and inland shipping facilities were also greatly extended.

These increases were achieved through a considerable reduction in the output of the consumer goods industries, by neglecting the replacement of worn-out machinery, by moving German capital equipment and German and

648 foreign labour to Austria,[10] 1 and also by making much
728 fuller use of Austria's resources than ever before. Indeed,
the organization of a war economy has revealed the
433 potential wealth of Austria—as of other countries—
471 showing what could be achieved in peace time if only
proper use were made of existing opportunities.

The increase in production, however, was also achieved by eating deeply into Austria's resources. In many cases it will take years before the damage can be repaired, if indeed it can be repaired at all. In the case of timber, for instance (an extremely important export commodity in Austria), a reckless policy of exploitation has undone many years' work of careful afforestation. The intensive cultivation of the soil and the lack of artificial fertilizers and of animal feeding-stuffs has had the most damaging effects on agriculture. Up to the middle of 1942 harvests and herds of livestock were maintained at the pre-war level; but the position has greatly deteriorated since then. 1943, in particular, was a bad year and large numbers of livestock had to be slaughtered.

The increase in the output of oil in Zistersdorf from about 30,000 tons in 1937 to something like 1 million tons (which is considerably more than Austria's total peacetime requirements) may, it is feared, have dangerously exhausted these valuable resources. Similarly, the rate of exploitation of the iron ore deposits reached an undesirably high level.[11] 1

727 Our provisional economic balance sheet would not be complete without remembering the tragic destruction of manpower: the thousands of Austrians killed in Hitler's war and the many brave men and women done to death in concentration camps and at the hands of the executioner.

1 [CF CATEGORY 11b, P. 92 -- ANALYST]

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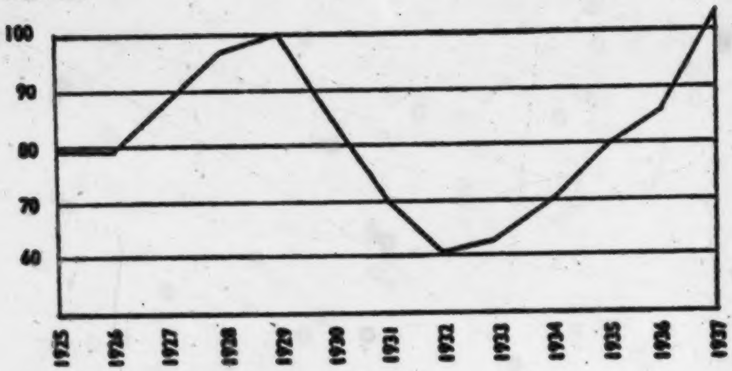
INDEX OF INDUSTRIAL PRODUCTION

1929=100

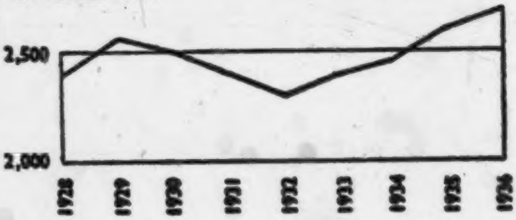
433



ELECTRICAL ENERGY

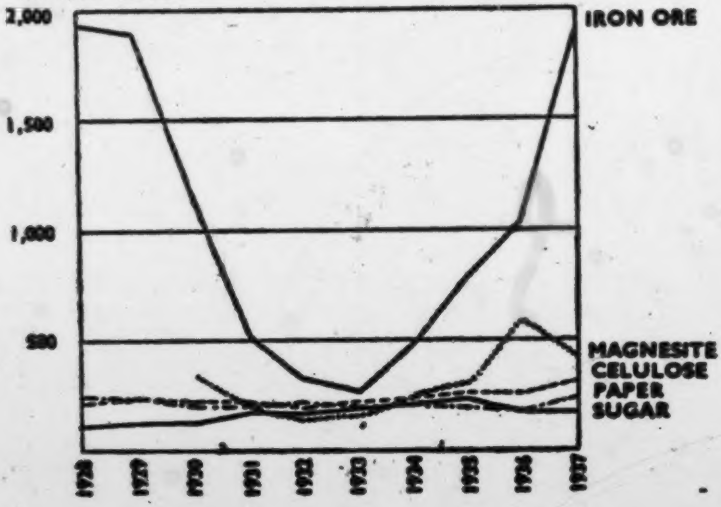
IN MILL. KW.

[377]



OUTPUT OF CERTAIN COMMODITIES

IN 1,000 TONS



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433

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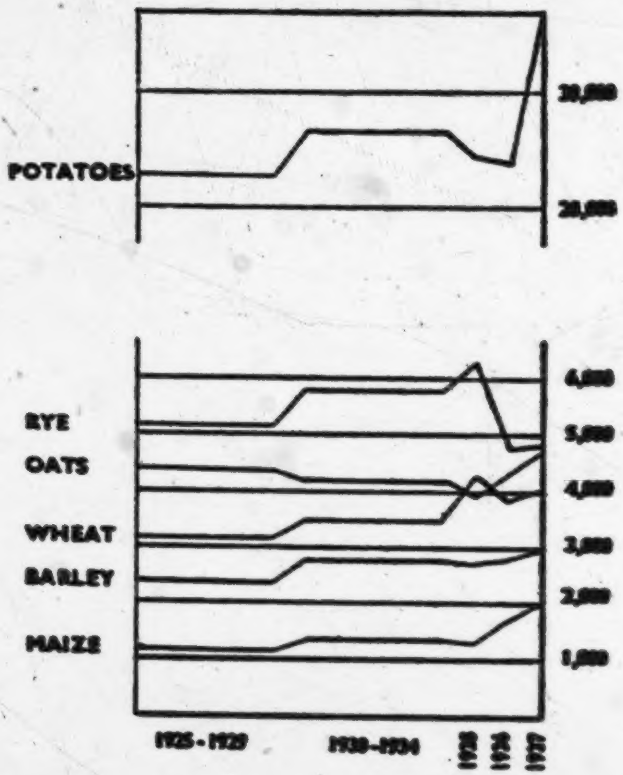
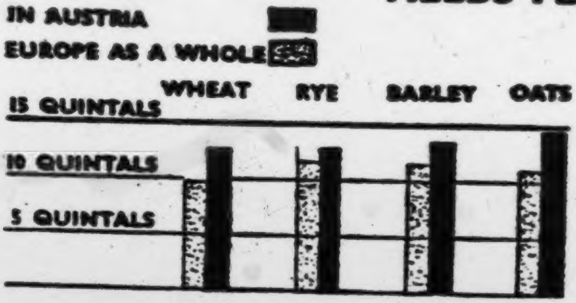
PRODUCTION OF CERTAIN AGRICULTURAL PRODUCTS

IN THOUSAND QUINTALS



COMPARISON BETWEEN AGRICULTURAL YIELDS PER HECTARE



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